

## **Statutory Consultation on the RIIO-2 Licence Drafting modifications - reasons and effects**

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## 1. Introduction

- 1.1 We are consulting on our proposed modifications to the licence conditions required to implement our decisions in the SSMD1 and the Final Determinations<sup>2</sup> on the RIIO-ET2, RIIO-GT2, RIIO-GD2 and RIIO-ESO price control settlements.
- 1.2 The modifications we are proposing to make are set out in annexes to this consultation.
- 1.3 Within this document, we set out the reasons why we propose to make these changes and their intended effect.
- 1.4 This statutory consultation does not apply to the Electricity Distribution licences.

## Context of these proposed licence changes

- 1.5 For the most part, we are proposing changes to the following licences only:<sup>3</sup>
  - for RIIO-ET2 and RIIO-GT2 - the electricity transmission licences of National Grid Electricity Transmission (NGET), Scottish Power Transmission (SPT) and Scottish Hydro Electricity Transmission (SHET) and the gas transporter licence of National Grid Gas Transmission (NGGT).
  - for RIIO-GD2 - the gas transporter licences of the following GDNs:
    - Cadent
    - Northern Gas Networks Limited
    - Scotland Gas Networks plc
    - Southern Gas Networks plc
    - Wales and West Utilities Limited.
  - for RIIO-ESO - the National Grid Electricity System Operator (NGESO).

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<sup>1</sup> RIIO-2 Sector Specific Methodology Decision [here](#)

<sup>2</sup> RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator [here](#)

<sup>3</sup> Note that Standard Licence Conditions may apply to licensees other than those listed.

- 1.6 There are three different types of licence conditions to which we are proposing changes. We have summarised these below.

### **Standard Licence Conditions (SLCs)**

- 1.7 SLCs set out the duties and obligations applicable to all holders of a particular type of licence. All transmission and gas distribution licences contain SLCs. The SLCs include some obligations related to RIIO that do not adjust allowed revenue.
- 1.8 The SLCs are grouped into different parts/sections that either apply or do not apply according to the activities carried out by the licence holder.

### **Standard Special Conditions (SSCs)**

- 1.9 SSCs are similar to SLCs but only apply to NGGT and the GDNs. They are grouped into different parts that either apply, or do not apply, to NGGT or the GDNs, according to the activities being carried out by that Licensee.

### **Special Conditions (SpCs)**

- 1.10 SpCs are conditions that apply to a particular licensee. However, the wording is often the same for all licensees of a particular type. The majority of the changes set out in this document relate to SpCs, as most of these relate to RIIO and many contribute to the calculation of allowed revenue.

### **Structure of the special licence conditions following allowed revenue**

- 1.11 In our September informal licence drafting consultation<sup>4</sup> we proposed changing the structure of the SpCs in light of the substantial changes being made to them to introduce RIIO-2.<sup>5</sup> We continue to believe this is a worthwhile change as we think that this will help improve navigation and help provide greater clarity on the types of regulatory mechanisms that will be implemented for RIIO-2. Our proposed modifications to the SpCs in this statutory consultation are in line with this proposed restructure, subject to one change since our September informal

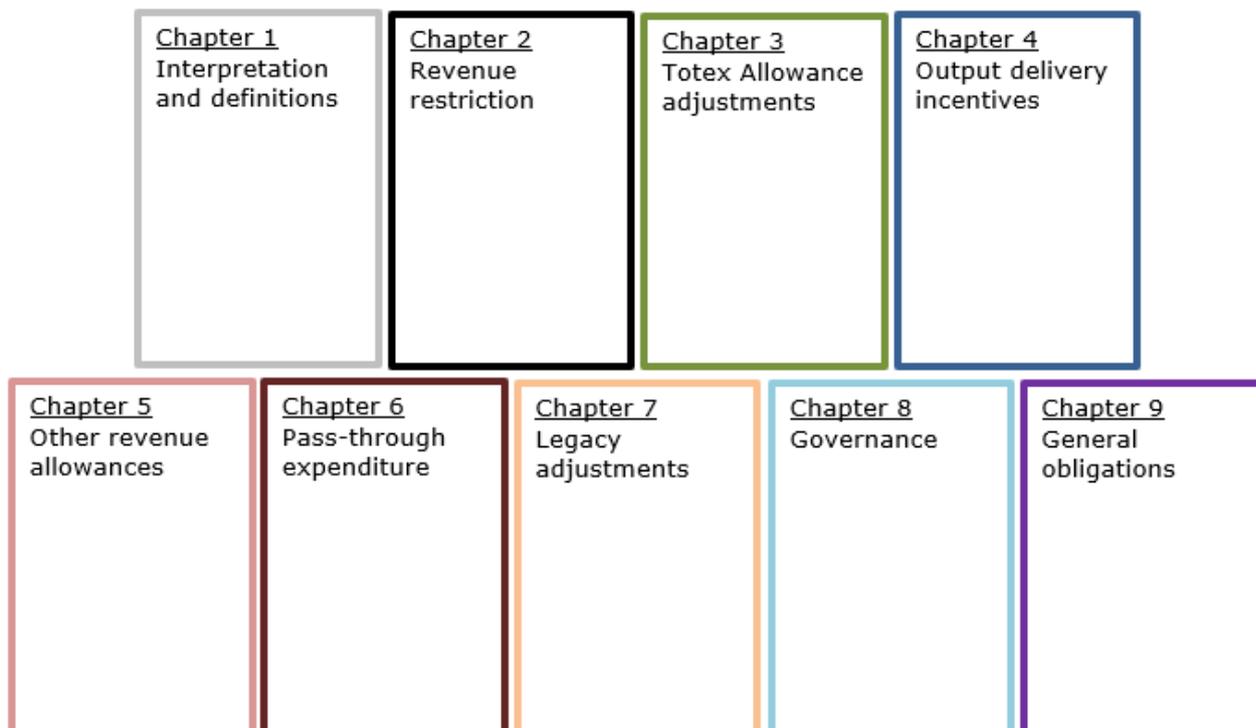
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<sup>4</sup> RIIO-2 Informal licence drafting consultation for Transmission, Gas Distribution and Electricity System Operator licences [here](#).

<sup>5</sup> We are not proposing structural changes to the SSCs and SLCs and are making fewer changes overall to those licence conditions in order to implement RIIO-2.

licence drafting consultation: chapter five previously only contained SpCs relating to innovation. This has been extended to include other revenue allowances that do not form part of the totex allowance. We have renamed this chapter "Other revenue allowances".

- 1.12 We have applied a similar structure to the ESO, with required modifications to reflect its streams of allowed revenue.



- 1.13 In our September informal consultation we also set out the RIIO2 Licence Drafting principles and explained that these would also have effect throughout the modifications we were making. We have made no changes to these principles, as set out in appendix 1, since that consultation and the modifications we are proposing reflect these principles.

## 2. Proposed changes to the Cross Sector Licence Conditions

### Section summary

Certain licence conditions are common across all of the ET, ESO, GT and GD sectors. We refer to these common licence conditions as “cross sector licence conditions”. This chapter explains the reasons why we are proposing to make changes to those cross sector licence conditions or to introduce new cross sector licence conditions and the effect of those modifications.

### Background on finance related modifications

2.1 We explained in our September informal consultation that we were proposing various finance related changes that would have effect throughout the SpCs in order to:

- remove duplicative text from the licence, eg having a description of the Annual Iteration Process (AIP) in one place rather than in each individual licence condition that feeds a Variable Value into the AIP. Time value of money adjustments can also be removed from individual licence conditions and applied through a single adjustment at a global level
- consolidate the various financial instruments<sup>6</sup> and reporting templates, so that the Price Control Financial Model (PCFM) will contain all the information required to calculate allowed revenue
- simplify the drafting and have consistency across the sectors to make the licence easier to read and use.

2.2 These proposed changes related to: notation, variable hierarchy and principal formula; the ADJ term; the K correction term; standardising across sectors and consolidating financial instruments and reporting tools. We continue to believe

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<sup>6</sup> A Price Control Financial Handbook (handbook) exists to supplement the Price Control Financial Model (PCFM) for each sector. These are collectively known as the Price Control Financial Instruments. Throughout this document we will refer to these generically as “the PCFM”, “the handbook” and “the Financial Instruments”, respectively.

these changes are worthwhile and are proposing to give effect to them through the modifications to the licence explained further below.

## Reason and effect for proposed finance related conditions

Revenue restriction	
Type of change	Amendment to existing licence condition
RIIO-2 number	2.1 in the ET and GD SpCs. This is conditions 2.1 and 2.3 in the GT SpCs. This is conditions 3.1, 4.1 and 4.2 in the ESO SpCs
RIIO-1 licence condition name	Restriction of revenue in respect of the Distribution Network Transportation Activity Restriction of Transmission Network Revenue Restriction of NTS Transportation Owner Revenue Restriction of NTS System Operation Revenue
Relevant licensees/relevant sectors	All

2.3 The reason for this proposed modification is to reflect the RIIO-2 drafting principles and the finance related changes proposed in this chapter and:

- to define Calculated Revenue and Allowed Revenue separately.
- to replace RPI inflation and time value of money adjustments throughout the licence algebra with a single adjustment that incorporates these true-ups at a global level.
- to implement an annual adjustment term to reflect revisions of historical inputs from the previous AIP to the current AIP.
- to change the K correction term to operate on a one year, rather than a two-year, lag (GD, GT, and ESO sectors).
- to provide for a term which can reduce the effect of the penal rate of interest on the K correction factor, by direction of the Authority.
- to remove the penal rate of interest on the K correction factor in the ET sector.
- to standardise the upper and lower bounds for the recovery penalty across the GD, ED and GT sectors as well as standardising a number of terms and definitions in the licence that currently differ across sectors but serve the same purpose.

2.4 The effect of these proposed modifications is:

- a notational change to remove references to years t-1, t-2 or t-3 and to draft the licence in a 'perfect foresight' (or perfect hindsight) style
- a reduction in duplicative true-up calculations in the individual special licence conditions.
- to make the adjustments reflect iterative updates rather than changes from final determinations.
- to allow Ofgem the option to partly apply or waive the penal element for under and over-recoveries beyond the reasonable control of the network.
- to introduce consistency in the recovery penalty bounds and in the terminology used across different licensees and sectors and to reduce repetition, to improve the clarity of the licence.

<b>Governance of Price Control Financial Instruments</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	8.1 in the ET, GT and GD SpCs. This is condition 5.1 in the ESO SpCs
RIIO-1 licence condition name	Governance of the Price Control Financial Instruments
Relevant licensees/relevant sectors	All

2.5 The purpose of this condition is to establish the change control framework for the PCFM and the Price Control Financial Handbook (PCFH), collectively referred to as the Price Control Financial Instruments.

2.6 The first reason for the changes are because we are proposing to remove some of the Variable Value Methodologies from the handbook and include them elsewhere, either within the licence or within the PCFM Guidance (see the next condition discussed).

2.7 The second reason for the changes is to amend the self-modification process for the Price Control Finance Instruments to reflect that as an independent regulator we should be determining whether to use the self-modification process after considering all relevant evidence.

2.8 The effect of the proposed changes is:

- to update the condition and remove references to the Price Control Financial Methodologies from the current drafting.

- to enable us in deciding whether a modification has "significant impact" to include all relevant evidence and to remove the prohibition on us using the self-modification power where the licensee reasonably considers that the proposed modification would be likely to have a significant impact.

<b>Annual Iteration Process for the Price Control Financial Model</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	8.2 in the ET, GT and GD SpCs. This is condition 5.2 in the ESO SpCs
RIIO-1 licence condition name	Annual Iteration Process for the Price Control Financial Model
Relevant licensees/relevant sectors	All
Associated document	PCFM Guidance

2.9 The purpose of this condition is to set out the steps of the AIP. The AIP is the formal process of updating the PCFM Variable Values to calculate the annual incremental change or "MOD", to Base Revenues<sup>7</sup> as they were set at final proposals. The AIP concludes by 30 November in each regulatory year at which point Ofgem formally directs the value for the MOD adjustment and each of the updated PCFM Variable Values. Once directed, the MOD value feeds into the calculation of the companies' maximum allowed revenues for the regulatory year commencing on the following 1 April.

2.10 The reasons for the proposed modifications are:

- to include all components of Allowed Revenue within the RIIO-2 PCFM rather than just the Base Revenue and MOD elements.
- to publish rather than direct the outcome of the AIP, because where Variable Values are observable and calculable based on a clearly defined calculation or separate process set out in either the licence or Financial Handbook, there is no need for a direction of those values.
- to update and clarify the steps of the AIP set out in the licence condition.
- to indicate the value of Allowed Revenue published at each AIP is the value that should be used for charging purpose to give networks and other stakeholders early visibility of the value, which will aid transparency in allowed revenue.

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<sup>7</sup> Base Revenue represents a large component, but not the entirety of network companies' maximum allowed revenues. The PCFM only contains Base Revenue and, following each AIP the re-calculated Base Revenue. The remaining components of Allowed Revenue (incentive revenues, pass-through items etc.) are calculated and recorded in the Revenue RRP.

- to allow for the re-publication of the AIP to update the ADJR\* term prior to the end of the Regulatory Year in case of material changes, to enable more accurate charging by licensees
- to introduce the PCFM Guidance as a new Associated Document, for the reasons discussed in relation to the previous condition.

2.11 The effect of the proposed modifications is:

- to amend the focus of the AIP from the MOD to Allowed Revenue and in the case of the ESO, System Operator Internal Revenue.
- refer to a “publication” rather than a “direction” of Allowed Revenue at the end of each AIP.
- to require the licensees to input the PCFM Variable Values and submit the PCFM to Ofgem as part of the amended steps of the AIP.
- to make the value of Allowed Revenue more transparent by making that the figure that is published at each AIP.
- to establish the PCFM Guidance, set out the change control process and to require licensees to comply with it when entering PCFM Variable Values into the PCFM and during the AIP.

<b>Cross-sector pass-through items</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	6.1 in the ET SpCs; 6.1 and 6.3 in the GT SpCs; 6.1 in the GD SpCs; and 3.2 and 4.1 in the ESO SpCs
RIIO-1 licence condition name	Distribution Network/Calculation of allowed pass-through items
Relevant licensees/relevant sectors	All
Associated document	N/A

2.12 The below pass-through items are common to all sectors and the changes will be reflected in all of the sector licenses. Further sector-specific changes to this condition are outlined later in this document and the draft conditions for each sector incorporating all of the pass-through items relevant to that sector are set out in the relevant Annexes to this document.

### **Business Rates/Prescribed Rates**

2.13 The reason for this proposed modification is to allow licensees to pass through charges for prescribed rates to consumers without requiring a direction from the Authority, which created an unnecessary administrative burden. This is also

consistent with how pass-through costs for prescribed rates are currently treated in the electricity distribution licences.

- 2.14 The effect is to allow licensees to treat prescribed rates as pass-through items without direction from the Authority and to modify the term "business rates" to "Prescribed Rates".

### **Licence Fees**

- 2.15 The reason for this proposed modification is to reflect the RIIO-2 drafting principles and the finance related changes proposed in this chapter.
- 2.16 The effect is to update the condition in accordance with our RIIO-2 drafting principles.

### **Bad Debt**

- 2.17 There is no formal mechanism in any of the RIIO-1 Transmission SpCs to allow for the recovery of bad debts.<sup>8</sup> SpC 1C in the current GD licence contains a miscellaneous pass-through term, the other sectors do not. This is a generic term, which requires a direction by the Authority.
- 2.18 The reason for this modification is to include a consistent bad debt term in the RIIO-2 licence to enable licensees to recover any actual or forecast bad debt costs incurred from the non-payment of network charges in a consistent and transparent way. In relation to GD, GT and ESO, this includes any forecast bad debts that may arise as a result of the Network Charge Deferral scheme<sup>9</sup>, which was set up by Ofgem to relieve cash flow-constrained suppliers and shippers in light of the impact of COVID-19.
- 2.19 The effect of this modification is to allow for the ongoing recovery of bad debts costs incurred in a way that is consistent across sectors.

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<sup>8</sup> The recovery of bad debt should be net of any interest income accrued at the default interest rate set out in the relevant industry code.

<sup>9</sup> <https://www.ofgem.gov.uk/publications-and-updates/managing-impact-covid-19-energy-market-relaxing-network-charge-payment-terms>

## Pensions

- 2.20 We have proposed to move the Pensions Established Deficit pass-through term from the specified financial adjustments condition to the pass-through condition to simplify the licence. The reason for this proposed modification is to reflect the RIIO-2 drafting principles and the finance related changes proposed in this chapter.
- 2.21 The effect is to update the condition in accordance with our RIIO2 drafting principles.

## Credit rating

<b>Credit rating of the licensee and resulting obligations</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	Standard Condition B10 (Electricity Transmission), Standard Special Condition A38 (Gas Transporter)
RIIO-1 licence condition name	Standard Condition B10 (Electricity Transmission), Standard Special Condition A38 (Gas Transporter)
Relevant sectors	All
Associated document	N/A

- 2.22 The purpose of this standard condition is to require licensees to maintain an investment grade issuer credit rating.
- 2.23 The reason for amending this condition is to ensure Ofgem is sent relevant information relating to licensee financial resilience and credit ratings (eg credit rating reports), in order to assist Ofgem in monitoring the financial resilience of companies and to provide us with valuable information on networks' considerations and plans for mitigating financial resilience challenges.
- 2.24 The effect of the modifications is to:
- a) Add a requirement for the licensee to send Ofgem a financial resilience report if the credit quality of the licensee is deteriorating such that their highest held issuer credit rating is BBB/Baa2 (or equivalent) and is placed on negative watch, or is downgraded directly to a BBB-/Baa3 or a lower rating without first being placed on negative watch.
  - b) Add a requirement for the licensee to send Ofgem a financial resilience report if a particular rating that is the subject of a debt covenant is one notch above

the minimum covenant requirement and is on negative watch or the rating is lower than one notch above the minimum rating requirement.

- c) Add a requirement for the licensee to send Ofgem published rating reports specifically relating to the licensee, where possible.
- d) Standardise the drafting of this condition across all sectors.

### **Directly Remunerated Services**

<b>Directly Remunerated Services</b>	
Type of change	Amended condition
RIIO-2 number	9.7 in the ET, GT and GD SpCs. This is condition 2.9 in the ESO SpCs
RIIO-1 number	Gas Distribution Special Licence Condition 4C, Gas Transmission Special Licence Condition 11C, Electricity Transmission Special Licence Condition 8B, Electricity System Operator Special Licence Condition 8B
RIIO-1 licence condition name	Excluded Services
Relevant licensees/relevant sectors	All
Associated document	N/A

- 2.25 The current licence condition sets out the activities for which network companies are allowed to charge their consumers directly, outside of the formal price control (the Excluded Services).
- 2.26 The reason for modifying the condition is to replace the term Excluded Services with the term "Directly Remunerated Services" (DRS), in line with the RIIO-1 electricity distribution licence, and to include both pre-vesting/BETTA and post vesting connection charges within the remit of Directly Remunerated Services.
- 2.27 The modifications also standardise the numbering of the Directly Remunerated Services across the sectors.
- 2.28 The effect of the proposed amendment is to align DRS across the sectors and to standardise DRS reporting in the PCFM.

Tax conditions

<b>Tax Reconciliation assurance statement</b>	
Type of change	New special licence condition
RIIO-2 number	9.18 in the ET SpCs; 9.8 in the GT SpCs; 9.9 in the GD SpCs; 2.12 in the ESO SpCs.
Relevant licensees/relevant sectors	All
Associated document	N/A

2.29 The reason for introducing this condition is to give effect to our decision to introduce a requirement for licensees to submit an annual board assurance statement that covers the Tax Reconciliation<sup>10</sup>.

2.30 The effect of this licence condition is to require licensees to submit a signed board assurance statement alongside the Tax Reconciliation, that we will require them to submit as part of the PCFM. The statement will provide us with additional comfort over the appropriateness of the values in the reconciliation or where there are material differences, an adverse statement will highlight any areas that we may need to investigate through a Tax Review (see condition below).

<b>Tax Allowance adjustment</b>	
Type of change	New special licence condition
RIIO-2 number	2.4 in the ET SpCs; 2.4 and 2.8 in the GT SpCs; 2.4 in the GD SpCs; 4.1 in the ESO SpCs.
Relevant licensees/relevant sectors	All
Associated document	N/A

2.31 The reason for introducing this condition is to give effect to our decision to introduce a Tax Review uncertainty mechanism.

2.32 The effect of this licence condition is to establish a Tax Review process that that would enable us to formally review and, if required, adjust the companies' tax allowance during the course of RIIO-2.

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<sup>10</sup> The Tax Reconciliation will be submitted annually as part of the PCFM and will reconcile the licensee's calculated tax allowance against its actual tax liability per their latest submitted tax returns.

Allocation of revenues and costs

<b>Allocation of revenues and costs for calculations under the price control</b>	
Type of change	Amended condition
RIIO-2 number	9.9 in the GT SpCs; 9.10 in the GD SpCs
RIIO-1 licence condition name	Special Condition 11B. - Allocation of revenues and costs (GT) Special Condition 4B. Allocation of revenues and costs (GD)
Relevant licensees/relevant sectors	GD and GT
Associated document	N/A

2.33 The purpose of this condition is to set out how the licensee must allocate its revenues and costs to different business activities and requires licensees to submit a statement to the Authority outlining its allocation methodology.

2.34 We propose to retain these conditions for GD and GT and have made amendments to the conditions in both sectors in line with our RIIO2 drafting principles.

<b>Legacy adjustments</b>	
Type of change	New special licence conditions
RIIO-2 number	7.1-7.6 and 7.12 in the ET SpCs; 7.1-7.5, 7.9-7.13 and 7.17 in the GT SpCs; 7.1-7.5 and 7.14 in the GD SpCs; and 4.8-4.9 in the ESO SpCs
Relevant licensees/relevant sectors	All
Associated document	N/A

2.35 The reason for introducing these conditions is because certain aspects of the RIIO-1 price control need to continue in some way for a period after the end of that price control.

2.36 The effect of these conditions is to provide for the close out of those items in RIIO-1 and to enable forecast amounts to be included in revenue allowances ahead of the formal close out of the RIIO-1 price control, which we will consult on in 2021.

<b>Disapplication of Relevant Special Conditions</b>	
Type of change	Amendment to existing condition
RIIO-2 number	SpC 9.6 in ET, GT and GD. SpC 2.10 in ESO.
RIIO-1 licence condition name	Disapplication of Relevant Special Conditions
Relevant licensees/relevant sectors	All
Associated document	N/A

2.37 The reason for the proposed modifications is to reflect the RIIO-2 drafting principles and the finance-related changes proposed in this chapter.

2.38 The effect is to update the condition in accordance with our RIIO2 drafting principles.

<b>Return adjustment</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 2.3 in GD and ET SpC 2.5 in GT
Relevant licensees/relevant sectors	GD, GT and ET
Associated document	N/A

2.39 The reason for introducing this condition is to give effect to our decisions in Final Determinations to have a Return Adjustment Mechanisms and to have an ex post mechanism for expected outperformance that has not materialised.

2.40 The effect of the condition is to increase or decrease revenue, based on a comparison between expected and realised Operational Performance during the Price Control Period.

### **Price Control Deliverables**

<b>Price Control Deliverable Reporting Requirements and Methodology Document</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 9.3
Relevant sectors	GD, GT & ET
Associated document	PCD Reporting Requirements and Methodology Document

2.41 The reason for introducing this condition is to establish reporting requirements for PCDs so that the Authority can understand the decisions taken by licensees to deliver, or not deliver, outputs and to establish the PCD Reporting Requirements and Methodology Document.

2.42 The effect of the condition is to:

- place a requirement on licensees to report to the Authority on the delivery of its evaluative PCDs.
- establish the PCD Reporting Requirements and Methodology Document:
  - with which a licensee needs to comply when preparing its PCD reports; and
  - which sets out how the Authority will assess the delivery of evaluative PCDs.

<b>Baseline Network Risk Output</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.1
Relevant sectors	ET, GT and GD
Associated document	N/A

2.43 The reason for introducing this condition is to implement our decisions in FDs with respect to the Network Asset Risk Metric (NARM).

2.44 The effect of this condition is to set out the requirements on the licensee in respect of the Baseline Network Risk Output and to specify the Baseline Allowed NARM Expenditure associated with those outputs. It also sets out the requirements on the licensee in respect of the NARM Closeout Report.

2.45 Revenue adjustments under the NARM Funding and Adjustment and Penalty Mechanism will be applied in RIIO-3 and as a result, we do not propose to set them out in the RIIO-2 licence. Our intention is to set out these details in the RIIO-3 Financial Handbook in due course.

<b>Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.2
Relevant sectors	ET, GD, GT
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

2.46 The reason for introducing this condition is to give effect to our decision in Final Determinations to have a cyber-resilience OT PCD and use it or lose it allowance and to establish a re-opener relating to cyber resilience OT.

2.47 The effect of the condition is to:

- specify outputs, delivery dates, and associated allowances for cyber resilience OT.
- make it a licence obligation for the licensee to deliver the outputs by the delivery dates.
- require the licensee to submit a cyber-resilience OT plan at the start of the price control.
- establish a re-opener for the licensee and the Authority to amend the cyber resilience OT PCD during the price control period
- provide for the assessment of the Cyber Resilience OT PCD, including a use it or lose it adjustment
- explain the process the Authority will follow when directing changes under the condition
- set out reporting requirements for the licensee.

<b>Cyber Resilience information technology Re-opener and Price Control Deliverable</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.3
Relevant sectors	ET, GD, GT
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

2.48 The reason for introducing this condition is to give effect to our decision in Final Determinations to have a cyber-resilience IT11 PCD and to establish a re-opener relating to cyber resilience IT.

2.49 The effect of the condition is to:

- specify outputs, delivery dates, and associated allowances for cyber resilience IT;
- make it a licence obligation for the licensee to deliver the outputs by the delivery dates
- require licensees to submit a cyber-resilience IT plan at the start of the price control
- establish a re-opener for the licensee and the Authority to amend to the cyber resilience OT PCD during the price control period
- provide for the assessment of the Cyber Resilience IT PCD
- explain the process the Authority will follow when directing changes under the condition
- set out reporting requirements for the licensee.

<b>Physical Security Re-opener and Price Control Deliverable</b>	
Type of change	New special licence condition (PCD) / Amendment of current Re-opener condition (UM)
RIIO-2 number	SpC 3.4
RIIO-1 number	GD SpC 3F GT SpC 5E and 6D ET SpC 6H
RIIO-1 licence condition name	Arrangements for the recovery of uncertain costs / Arrangements for recovery of SO uncertain costs
Relevant sectors	ET /GD/GT
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

2.50 The RIIO1 SpCs provide re-openers for licensees to recover expenditure in relation physical site security costs.

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<sup>11</sup> Information Technology are network and information systems that are used within business functions, for example word processing.

- 2.51 The reason for replacing the current conditions is to give effect to our decision in FDs to have a physical security PCD for any funding provided, and to include within this condition a provision for a physical security Re-opener.
- 2.52 The effect of the condition is to specify the outputs, delivery dates and associated allowances for any physical security PCD and to provide for an assessment of the PCD. The condition also establishes a re-opener to adjust allowances for changes to the government's Physical Security Upgrade Programme.

<b>Net Zero and Re-opener Development Fund use it or lose it allowance</b>	
Type of change	New licence condition
RIIO-2 number	SpC 3.5
Relevant licensees/relevant sectors	ET, GD, GT
Associated document	Net Zero and Re-opener Development Fund Governance Document

- 2.53 The reason for introducing this condition is to give effect to our Final Determination to introduce the Net Zero and Re-opener Development use it or lose it allowance.
- 2.54 The effect of the condition is to establish a use it or lose it allowance which can be used by all network companies, when the Governance Document is finalised, to fund early design and pre-construction work in relation to various re-openers, and it also allows GD and GT to undertake small Net Zero facilitation projects.

## **Re-openers**

<b>Re-opener Guidance and Application Requirements Document</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 9.4
Relevant sectors	ET, GT, GD
Associated document	Re-opener Guidance and Application Requirements Document

- 2.55 The reason for introducing this condition is to enable the creation and amendment of an Associated Document that will provide further detail on how licensees should prepare re-opener applications in order to improve the quality of applications and support our goal of making decisions in time for that year's AIP.
- 2.56 The effect of this licence condition is to require licensees to prepare applications in accordance with any guidance document the Authority provides. This licence

condition also explains the process the Authority will follow in issuing and amending the guidance document.

<b>Non-operational IT Capex Re-opener</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.7
Relevant sectors	ET, GT, GD
Associated document	Re-opener Guidance and Application Requirements Document

2.57 The reason for introducing this condition is to give effect to our decision in Final Determination to introduce a re-opener for non-operational IT capex projects for which we did not provide an ex-ante allowance.

2.58 The effect of this condition is to establish a re-opener to allow the licensee to submit an application for funding associated with non-operational IT capex projects.

<b>Net Zero Re-opener</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.6
Relevant sectors	ET, GT, GD
Associated document	N/A

2.59 The reason for introducing this condition is to give effect to our decision to introduce a Net Zero re-opener mechanism, as set out in the Final Determinations.

2.60 The effect of the condition is to introduce a re-opener that can be triggered solely by the Authority in order to respond to government policy changes connected to the meeting of the Net Zero carbon target, that have an effect on the costs and outputs of network licensees.

<b>Coordinated adjustment mechanism Re-opener</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.8
Relevant licensees/relevant sectors	ET, GD, GT
Associated document	Re-opener Guidance and Application Requirements Document

2.61 The reason for introducing this condition is to give effect to our decision in the SSMD to introduce a Coordinated Adjustment Mechanism.

2.62 The effect of this condition is to establish a re-opener 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 demonstrable benefits to consumers.

<b>Net Zero Pre-Construction and Small Net Zero Projects Re-opener</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 3.9
Relevant sectors	GT, GD
Associated document	N/A

2.63 The reason for introducing this condition is to give effect to our decision in the Final Determinations to introduce a Net-zero Pre-construction and Small projects re-opener.

2.64 The effect of this licence condition is to establish a re-opener triggered by the Authority that enables companies to progress small value, high impact, Net Zero work.

### General Obligations

<b>Network Asset Risk Metric Methodology</b>	
Type of change	Amendment to existing licence condition
RIIO-2 Licence Number	SpC 9.2
RIIO-1 number	SpC 2L for ET, SpC 4G for GD and SpC 7D for GT
RIIO-1 licence condition name	Methodology for Network Output Measures
Relevant licensees/relevant sectors	ET, GT, GD
Associated document	N/A

2.65 This condition sets out the licensees' requirements in respect of the NARM Methodology and the process for modifying that methodology.

2.66 The reasons for amending this condition are to implement our decisions in Final Determinations on the NARM, including on long-term risk, to clarify the NARM objectives, and to align the requirements with respect to the NARM across the ET, GT and GD sectors.

2.67 The effect of the amendments is to require licensees to have and maintain a NARM Methodology.

<b>Regulatory Instructions and Guidance</b>	
Type of change	Amendment to existing licence condition
RIIO-2 Licence Number	Standard Condition B15 (ET & ESO) Standard Special Condition A40 (GT and GD)
RIIO-1 number	Standard Condition B15 (ET & ESO) Standard Special Condition A40 (GT and GD)
RIIO-1 licence condition name	Regulatory Instructions and Guidance
Relevant licensees/relevant sectors	ET, GT, GD and ESO
Associated document	Regulatory Instructions and Guidance

2.68 The purpose of this condition is to provide a framework of reporting provisions which enables the Authority to collect data and supporting explanation from the licensees during the price control. The Regulatory Instructions and Guidance (RIGs) inform the licensees about the information we plan to collect, guidance on how to provide this information and enable licensees to put systems in place to collect the information to the level of detail we require. The condition also sets out the change control process for updating the RIGs.

2.69 There are two reasons for amending this licence condition. The first is to harmonise the structure of the condition across the relevant sectors, and present the various parts in a standardised manner. The second reason is to provide additional provisions, following learnings from the RIIO-T1 reporting process and to implement our proposals in Draft Determinations, regarding strengthening existing requirements on licensees to confirm that the Specified Information in respect of each Regulatory Year meets the standards prescribed by the RIGs, and to allow for derogations to be granted under specified circumstances and on a time-limited basis.

2.70 The effect of the changes is to:

- introduce a new requirement on licensees to provide a statement confirming that the information and commentary provided is consistent with the requirements of the RIGs.
- introduce the ability for Ofgem to grant a derogation from RIGs under specified circumstances, which is already possible in the ED sector.
- introduce additional defined terms relating to this condition.

<b>Interpretation and Definitions</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	Special Condition 1.1 (All sectors)
RIIO-1 number	Special Condition 1A (All sectors)
RIIO-1 licence condition name	Interpretation and definitions
Relevant licensees/relevant sectors	ET, GD, GT and ESO
Associated document	N/A

2.71 The reason for amending this condition is to update the list of definitions to reflect the amendments being made to the rest of the SpCs and to refresh the provisions of general interpretation to improve the clarity of the SpCs.

2.72 The effect of the amendments is to:

- update the list of definitions to include all those used in the SpCs, including providing an explanation of when that definition is to be found in another document such as the SLCs/SSCs and in some cases providing for that definition to be ambulatory.
- provide for the definitions to apply in other documents setting out the outputs, delivery dates and allowances for PCDs.
- add provisions of general interpretation including the notations used in relation to Regulatory Year, references to amended conditions (ET and ESO only) and Appendices, references to a Distribution Network (GD only), the value of accruals, receipts and payments, the timing of things done to issue documents provided for by the SpCs, the price base used in the SpCs and the making of directions, consents, derogations, approvals, designations and determinations.
- deleting provisions of general interpretation relating to definitions that are no longer required.

<b>Data Assurance Requirements</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	Standard Special Condition A55 (GT & GD) Standard Condition B23 (ET & ESO)
RIIO-1 number	Standard Special Condition A55 (GT & GD) Standard Condition B23 (ET & ESO)
RIIO-1 licence condition name	Data Assurance requirements
Relevant licensees/relevant sectors	GT, GD, ET & ESO
Associated document	Data Assurance Guidance

- 2.73 The reason for amending this condition is to update the licence drafting in all sectors to ensure consistency between the Data Assurance Guidance document and the licence conditions as well as to ensure consistency between sectors.
- 2.74 The effect of the amendment is to align the reporting obligations in the relevant licence condition with requirements set out in the Data Assurance Guidance document for all sectors.

<b>Annual Environmental Report</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 9.1
Relevant licensees/relevant sectors	ET, GT and GD
Associated document	Environmental Reporting Guidance

- 2.75 The reason for introducing this condition is to give effect to our decision in SSMD to increase the transparency and the accountability of the network licensees in relation to the impacts of their businesses and network activities on the environment, and on the licensees' progress against their Environmental Action Plan commitments.
- 2.76 The effect of the condition is to require the network licensees to prepare and publish on their websites an Annual Environmental Report in accordance with the Environmental Reporting Guidance that the Authority will issue and amend in accordance with this condition.

<b>Close out of the RIIO-1 Network Outputs</b>	
Type of change	Close out of existing RIIO-1 condition
RIIO-2 number	SpC 7.6
RIIO-1 number	SpC 2M for ET, SpC 7E for GT and SpC 4H for GD
RIIO-1 licence condition name	Specification of Network Replacement Outputs
Relevant sectors	ET, GT and GD
Associated document	N/A

- 2.77 The reason for amending this condition is to ensure the licensees' obligations under the closeout process for the RIIO-1 Network Output Measures (NOMs) are included in the RIIO-2 period, during which the actual closeout of this mechanism will take place.

2.78 The effect is to close out the NOMs Incentive Mechanism<sup>12</sup>.

<b>Digitalisation</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 9.5 in ET, GT, GD. SpC 2.11 in ESO.
Relevant sectors	ET, GT, GD and ESO
Associated document	Data Best Practice Guidance Digitalisation Strategy and Action Plan Guidance

2.79 The reason for this condition is to implement our decision in Final Determinations to require licensees to have a Digitalisation Strategy and Digitalisation Action Plan and to act in accordance with Data Best Practice when using Energy System Data.

2.80 The effect of the condition is to require network licensees to publish and maintain a Digitalisation Strategy and Digitalisation Action Plan. The condition sets out the requirements of the Digitalisation Strategy and Action Plan and the process that the Authority will follow when issuing and amending the Digitalisation Strategy and Action Plan Guidance and the Data Best Practice Guidance. The condition will require licensees to review the progress they have made against their Digitalisation Strategy and Action Plan and update it at regular intervals. The condition will also mean that licensees will be required to follow Data Best Practice Guidance when using Energy System Data.

<b>Housekeeping</b>	
Type of change	New condition
RIIO-2	Standard Licence Condition B24 in ET and ESO Standard Special Condition A56 in GD and GT
Relevant sectors	ET, GT, GD and ESO
Associated document	N/A

2.81 The reason for introducing this condition is to provide the Authority with a more efficient and economic process to make “housekeeping” changes to licence conditions. Housekeeping changes are minor or administrative amendments, for example the correction of typographical errors and the renumbering of

<sup>12</sup>NOMs Incentive Methodology, 6 December 2018: <https://www.ofgem.gov.uk/publications-and-updates/decision-network-output-measures-noms-incentive-methodology>

paragraphs. The condition will help to reduce the regulatory burden on the Authority and ensure that licence conditions are accurate and administrative changes to the licence can be made expediently.

2.82 The effect of the condition is to introduce an alternative to the statutory modification process that the Authority can use to make housekeeping changes to licence conditions. If the Authority concludes that the change is not a housekeeping change it will use the statutory process to make any changes instead.

## Innovation

<b>Gas Network Innovation Strategy / Electricity Network Innovation Strategy</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	Standard Licence Condition B16 in ET and ESO Standard Special Condition A28 in GD and GT
RIIO-1 number	Standard Licence Condition B16 in ET and ESO Standard Special Condition A28 in GD and GT
RIIO-1 licence condition name	Gas Network Innovation Strategy / Electricity Network Innovation Strategy
Relevant sectors	ET, GD, GT, ESO
Associated document	N/A

2.83 The reason for amending these licence conditions is to give effect to our decision in the SSMD to require licensees to include whole system considerations in the Gas Network Innovation Strategy and Electricity Network Innovation Strategy, respectively.

2.84 The effects of the amendments proposed are to:

- require licensees to engage and consult with stakeholders in other sectors, specifically gas/electricity, heat, telecoms, transport, water and wastewater, and refuse.
- require licensees to disclose with whom they have consulted in the Gas Network Innovation Strategy or the Electricity Network Innovation Strategy as appropriate.
- require licensees to provide an analysis of representations received;
- remove the requirement that the first strategies must be published by 31 March 2018 (as this date has now passed).

- correct typographical errors.
- provide that the Gas Network Innovation Strategy and Electricity Network Innovation Strategy can each be comprised of more than one single document.

<b>Innovation Roll-out Mechanism</b>	
Type of change	Complete removal of a RIIO-1 condition
RIIO-1 licence condition name	Innovation Roll-out Mechanism
Relevant sectors	GD SpC 3D, GT SpC 5D, ET SpC 6E
Associated document	N/A

2.85 The reason for removing the condition is to reflect the omission from RIIO-T2 and RIIO-GD2 of the Innovation Roll-out Mechanism, as per our methodology decision in May 2020.

2.86 The effect of removing the condition is that no Innovation Roll-Out Mechanism will be available in RIIO2.

<b>RIIO-1 Network Innovation Competition</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	SpC 7.11 in ET; SpC 7.7 in GT and GD; SpC 3.3 in ESO.
RIIO-1 number	GD SpC 1I, GT SpC 2F, ET SpC 3I, ESO SpC 3I
RIIO-1 licence condition name	The Network Innovation Competition
Relevant sectors	ET, GD, GT, ESO
Associated document	NIC Governance Document

2.87 The reason for amending the current licence condition is to implement our decision to replace the Network Innovation Competition with the Strategic Innovation Fund in RIIO-2. Accordingly, certain provisions of the RIIO-1 NIC licence condition will be redundant in RIIO-2. However, certain provisions will need to remain operative in relation to RIIO-1 projects so as to ensure, for example, that governance arrangements continue to apply in relation to project funding and that funds unspent when RIIO-1 projects finish can be returned to consumers or, in certain circumstances retained by licensees.

2.88 Additionally, as the Gas System Operator and Electricity System Operator will have continued roles administering NIC funding after the end of their RIIO-1 price controls, we need to retain related requirements in the GT and ESO licences to ensure that these administrative functions are not compromised.

2.89 The effect of the changes is to remove parts of the NIC licence condition that we will no longer use and to retain those that we will use.

<b>The RIIO-2 Network Innovation Allowance</b>	
Type of change	New special licence condition
RIIO-2 number	SpC 5.2 in ET, GT and GD. SpC 4.6 in ESO.
Relevant sectors	ET, GD, GT, ESO
Associated document	RIIO-2 Network Innovation Allowance Governance Document

2.90 The reason for introducing this new licence condition is to provide licensees with RIIO-2 Network Innovation Allowance (NIA) funds and establish a framework for the regulation, administration and governance of RIIO-2 NIA projects.

2.91 The effect of this new licence condition is to state the level of NIA funding licensees will receive and, in the GT and GD licence, give the Authority the ability to direct an additional amount of NIA funding during RIIO-2 for hydrogen innovation projects. The ET, GD, GT and ESO licence conditions also establishes the process for introducing the RIIO-2 NIA Governance Document.

<b>Carry-over RIIO-1 Network Innovation Allowance</b>	
Type of change	Amendment to existing licence condition
RIIO-2 number	SpC 5.3 in ET, GT, GD. SpC 4.7 in ESO.
RIIO-1 number	GD SpC 1H, GT SpC 2E, ET SpC 3H, ESO SpC 3H
RIIO-1 licence condition name	The Network Innovation Allowance
Relevant sectors	ET, GD, GT, ESO
Associated document	RIIO-1 Network Innovation Allowance Governance Document

2.92 The reason for the amendment is to implement our decision in FDs to allow licensees to carry-over unspent RIIO-1 NIA funds from regulatory year 2020/21 into regulatory year 2021/22, for projects on which work commenced prior to 31st March 2021.

2.93 The effect of the amendment is to calculate the level of unspent RIIO-1 NIA for regulatory year 2020/21 that licensees may carry-over into regulatory year 2021/22, and establish the arrangements relating to the regulation, administration, and governance of the carry-over RIIO-1 NIA. This condition is separate from the RIIO-2 NIA framework arrangements which are contained in a separate licence condition (see above).

## 3. Proposed Changes to the Electricity Transmission Licence Conditions

### Section summary

This chapter explains the proposed modifications to the Electricity Transmission (ET) Licence Conditions, why we are proposing these changes and their effect.

### Reason and effect for proposed Electricity Transmission Licence Conditions

<b>SpC 1.2 Amendments to the Standard Conditions for the purposes of this licence</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	NGET, SHET, SPT
RIIO-1 number	SpC 1C
RIIO-1 licence condition name	Amended standard conditions
Associated document	N/A

- 3.1 The purpose of this condition is to remove references to Special Condition 1C as having the effect of amending the Standard Licence Conditions.
- 3.2 The reason for amending this condition is to clarify that the definition provided in Special Condition 1C only applies in relation to the relevant licensee, and does not have the effect of amending the Standard Licence Conditions in so far as they apply to all licensees.
- 3.3 The effect of the amended condition is to improve the clarity of this condition.

### Special Conditions Chapter 3-Totex Allowance Adjustments

<b>SpC 3.9 Wider works Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	NGET, SHET, SPT
Associated document	PCD Reporting Requirements and Methodology Document

- 3.4 The reason for introducing this condition is to give effect to our decision in Final Determinations to have a wider works PCD.

3.5 The effect of the condition is to specify the outputs, delivery dates and associated allowances for the wider works PCD and to provide for the assessment of the PCD.

<b>SpC 3.10 Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 6G
RIIO-1 licence condition name	Re-opener to mitigate the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas
Relevant licensees	NGET, SPT and SHET
Associated document	N/A

3.6 The current condition allows licensee expenditure to be adjusted to fund projects that mitigate the impact of pre-existing transmission infrastructure on the visual amenity of designated areas.

3.7 The reason we are changing this licence condition is to give effect to our decision to set PCDs for Visual Impact Mitigation projects, to require the licensee to update their Mitigation Pre-existing Transmission Infrastructure Policy at the start of RIIO-2, and to update the licensee’s allowances for Enhancing Pre-existing Infrastructure Projects that are submitted by the licensee before the start of RIIO-2.

3.8 The effect of the changes is to:

- introduce PCDs for new projects approved under the licence condition.
- to place requirements on licensees in respect of updating their RIIO-T1 Mitigation Pre-existing Transmission Infrastructure Policy for the RIIO-T2 price control.
- to make provision to update the licensee’s allowances for Enhancing Pre-existing Infrastructure Projects that are submitted by the licensee before the start of RIIO-2 and are subsequently approved by the Authority.

<b>SpC 3.11 Generation Connections volume driver</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	Special Condition 6F
RIIO-1 licence condition name	Baseline Generation Connections Outputs and Generation Connections volume driver
Relevant licensees	NGET, SPT and SHET
Associated document	N/A

- 3.9 The purpose of this condition is to provide licensees with a volume driver for connecting new generation customers to the transmission system, where the need for future investment is uncertain.
- 3.10 The reason for amending this licence condition is to implement our decisions in Final Determinations in respect of the volume driver for generation connections.
- 3.11 The effect of the amendments is to remunerate licensees for generation connections they will deliver during RIIO-2 and for connections they forecast they will deliver before 1 April 2028.

<b>SpC 3.12 Demand Connections volume driver</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	Special Condition 6L
RIIO-1 licence condition name	Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume
Relevant licensees	NGET, SPT
Associated document	N/A

- 3.12 The purpose of this condition is to provide licensees with a volume driver for connecting new demand customers to the transmission system, where the need for future investment is uncertain.
- 3.13 The reason for amending this licence condition is to implement our decisions in Final Determinations in respect of the volume driver for demand connections.
- 3.14 The effect of the amendments is to remunerate licensees for demand connections they will deliver during RIIO-2 and for connections they forecast they will deliver before 1 April 2028.

<b>SpC 3.13 Large onshore transmission Investment Re-opener</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 6I
RIIO-1 licence condition name	Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure
Relevant licensees	NGET, SPT and SHET
Associated document	LOTI Guidance and submissions requirements document

- 3.15 The current Strategic Wider Works condition adjusts the licensee's allowed expenditure for load-related investments on the transmission network that are

expected to cost £50m or more for SHET, £100m or more for SPT, and £500m or more for NGET.

3.16 We are proposing to amend this licence condition for two reasons. The first is to simplify the structure of the condition, and present the various parts of it more sequentially. The second reason is to provide additional detail, following learnings from the Strategic Wider Works mechanism in RIIO-ET1 and to implement our Final Determination regarding ETO obligations under the assessment process for LOTI projects, the types of project that LOTI is required for, and the definitions used within the condition.

3.17 The effect of the changes is to:

- re-order the different parts of the condition such that they are presented sequentially (ie broadly in the order in which they would occur).
- introduce specific parts of the condition which address each of Ofgem’s assessment stages and revised scope of the condition.
- provide that for the Project Assessment Direction the self-modification procedure will not apply where our decision significantly differs from what was requested by the licensee and that instead we will make any modifications using our legislative powers.
- remove the ‘Amendments for Changes in System Background’ part of the condition.
- streamline the wording in the ‘Cost and Output Adjusting Event’ part of the condition.
- introduce additional defined terms relating to this condition.

3.18 We plan to consult on the LOTI Guidance in January 2020, such that it is implemented at the start of RIIO-2.

<b>SpC 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET, SPT and SHET
Associated document	Re-opener Guidance and Application Requirements Document

3.19 The reason for introducing this condition is to give effect to our Final Determination to introduce the Medium Sized Investment Projects (MSIP) re-

opener. This would enable the ETOs to apply for funding for various sub-£100m investments that may be required during the price control period.

- 3.20 The effect of the condition is to establish an annual re-opener, which would allow the ETOs to submit a funding request for the projects listed in this condition as being eligible for the MSIP re-opener. The condition provides for the Authority to specify the outputs, delivery dates and associated allowances for the PCDs which are approved through the re-opener, and provides for the subsequent assessment of those PCDs.

<b>SpC 3.15 Pre-Construction funding Re-opener and Price Control Deliverable</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3L
RIIO-1 licence condition name	Pre-construction Engineering Outputs for prospective Strategic Wider Works
Relevant licensees/relevant sectors	NGET, SPT and SHET
Associated document	Re-opener Guidance and Application Requirements Document PCD Reporting Requirements and Methodology Document

- 3.21 The current RIIO-1 condition provides for a use it or lose it allowance for pre-construction expenditure where projects could be substituted in or out, but the total allowance remained unchanged.
- 3.22 The reason for amending the current condition is to give effect to our Final Determination that the ETOs should have a re-opener for recovery of efficient pre-construction expenditure incurred during the RIIO-ET2 period which was not provided for in baseline allowances. We proposed to set baseline pre-construction allowances through PCDs for known projects, whilst also establishing this re-opener for projects that emerge during the period.
- 3.23 The effect of the condition is to establish a re-opener that allows for ETO submissions to request efficient expenditure on permitted pre-construction activities. The condition also specifies the outputs, delivery dates and associated allowances for the Pre-Construction Funding PCDs set at the outset of RIIO-2 and those approved through the re-opener and provides for the assessment of the PCDs.

<b>SpC 3.16 Access Reform Re-opener</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SPT and SHET
Associated document	Re-opener Guidance and Application Requirements Document

3.24 The reason for introducing this condition is reduce totex allowances if changes to industry codes arising from our Access and forward-looking charges Significant Code Review (SCR) leads to a reduction in network costs.<sup>13</sup>

3.25 The effect of the condition is to establish a re-opener which would allow Ofgem to make adjustments to baseline allowances and for the values used in the calculations of the Generation Connections and Demand Connections volume drivers, if there is a demonstrable likelihood of reduction in Networks' costs, as a result of industry code changes to implement the outcome of our Access and forward-looking charges SCR.

<b>SpC 3.17 Shared Schemes Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	SHET, SPT
Associated document	PCD Reporting Requirements and Methodology Document

3.26 The reason for introducing this condition is to give effect to our decision in FD to have a Shared Schemes PCD.

3.27 The effect of the condition is to specify the outputs, delivery dates and associated allowances for the Shared Schemes PCD and to provide for the assessment of the PCD.

<b>SpC 3.18 Resilience and Operability Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	SPT, SHET
Associated document	PCD Reporting Requirements and Methodology Document

3.28 The reason for introducing this condition is to give effect to our decision in FDs to have a Resilience and Operability PCD.

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<sup>13</sup> Reform of network access and forward-looking charges [here](#).

- 3.29 The effect of the condition is to specify the outputs, delivery dates and associated allowances for the Resilience and Operability PCDs and provide for the assessment of the PCD.

<b>SpC 3.19 Environmental Enhanced Requirements use it or lose it allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	SPT
Associated document	N/A

- 3.30 The reason for introducing this condition is to give effect to our decision in FDs that SPT should have an use it or lose it allowance to deliver enhanced environmental requirements in relation to the network projects included in its baseline funding for RIIO-T2.

- 3.31 The effect of the condition is to specify associated allowances, to require the licensee to submit an evaluation report, and to provide for an assessment of the use it or lose it allowance at the end of RIIO-2.

<b>SpC 3.21 Generation related infrastructure Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	PCD Reporting Requirements and Methodology Document

- 3.32 The reason for introducing this condition is to give effect to our decision in FDs to have a Generation Related Infrastructure PCD.

- 3.33 The effect of the condition is to specify the outputs, delivery dates and associated allowances for the Generation Related Infrastructure Price Control Deliverable and to provide for the assessment of the PCD.

<b>SpC 3.22 Operational transport carbon reduction Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	PCD Reporting Requirements and Methodology Document

- 3.34 The reason for introducing this condition is to give effect to our decision in FDs that NGET should have a PCD for reducing carbon emissions from operational transport.

3.35 The effect of the condition is to specify the outputs, delivery dates and associated allowances for the PCD, and to provide for the assessment of the PCD.

<b>SpC 3.23 Instrument Transformer Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.36 The reason for introducing this condition is to give effect to our decision in FDs to have a PCD to fund an intervention programme for Instrument Transformers.

3.37 The effect of the condition is to:

- specify the listed assets and volume outputs, delivery dates and associated allowances.
- provide for the Authority to direct the application of the formula in the licence condition to adjust allowances at the end of RIIO-2 to account for actual delivery of the PCD.

<b>SpC 3.24 Bay Assets Price Control Deliverable (BAT)</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.38 The reason for introducing this condition is to give effect to our decision in FDs to have a PCD to fund an intervention programme for Bay Assets.

3.39 The effect of the condition is to:

- specify the volume outputs, delivery dates and associated allowances.
- set out the formula to adjust allowances at the end of RIIO-2 to account for actual delivery of the Bay Asset PCD.

<b>SpC 3.25 Protection and Control Price Control Deliverable (PCt)</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.40 The reason for introducing this condition is to give effect to our decision in FDs to have a PCD to fund an intervention programme for Protection and Control Refurbishment and Replacement.

3.41 The effect of the condition is to:

- specify the volume of refurbishment and replacement outputs, delivery dates and associated allowances.
- set out the formula to adjust allowances at the end of RIIO-2 to account for actual delivery of the PCD.

<b>SpC 3.26 Overhead Line Conductor Price Control Deliverable (OCT)</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.42 The reason for introducing this condition is to give effect to our decision in FDs to have a PCD to fund an intervention programme for OHL conductor replacement.

3.43 The effect of the condition is to:

- specify the outputs, delivery dates and associated allowances.
- set out the formula to adjust allowances at the end of RIIO-2 to account for actual delivery of the PCD.

<b>SpC 3.27 Substation Auxiliary Systems Use It Or Lose It allowance (SASt)</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.44 The reason for introducing this condition is to give effect to our decision in FDs to have a use it or lose it allowance for an intervention programme on substation auxiliary systems.

3.45 The effect of the condition is to specify the allowance for the substation auxiliary works, and to provide for an adjustment for any unspent allowance at the end of the price control.

<b>SpC 3.28 SF6 asset intervention Re-opener and Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	Re-opener Guidance and Application Requirements Document; PCD Reporting Requirements and Methodology Document

3.46 The reason for introducing this condition is to give effect to our FD decision to have a re-opener and PCD to fund an intervention programme for assets containing SF6.

3.47 The effect of the condition is to specify the outputs, delivery dates and associated allowances and to provide for an assessment of the PCD. It also establishes re-openers for the licensee and the Authority to trigger amendments to the PCD.

<b>SpC 3.29 Subsea Cable Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	SHET
Associated document	Re-opener Guidance and Application Requirements Document

3.48 The reason for introducing this condition is to give effect to our Final Determination decision that SHET should have a re-opener for funding for the costs of subsea cable repairs on its network.

3.49 The effect of the condition is to establish a re-opener to enable SHET to request funding where there is a need for subsea cable repairs on its network.

<b>SpC 3.30 Uncertain Non-Load Related Projects Re-opener and Price Control Deliverable</b>	
Type of change	New Condition
Relevant licensees/relevant sectors	SPT
Associated document	Re-opener Guidance and Application Requirements Document; PCD Reporting Requirements and Methodology Document

3.50 The reason for introducing this condition is to reflect our Final Determination decision that SPT should have a re-opener for one or more specified non-load related projects.

3.51 The effect of the condition will be to enable SPT to apply to the Authority for funding for one or more of those projects. The condition provides for the Authority to specify the outputs, delivery dates and associated allowances for the PCDs which are approved through the re-opener, and provides for an assessment of those PCDs.

<b>SpC 3.31 Wider works volume driver</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.52 The reason for introducing this condition is to implement our decision in Final Determinations in respect of NGET’s incremental wider works portfolio.

3.53 The effect of this condition is to adjust NGET’s revenue to provide funding for wider works projects that are triggered by the Network Options Assessment.

<b>SpC 3.32 Fibre Wrap Replacement Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	Re-opener Guidance and Application Requirements Document

3.54 The reason for introducing this condition is to give effect to our decision in FDs to have a re-opener for NGET for the replacement of Fibre Wrap.

3.55 The effect of the re-opener is to allow NGET to request funding for well justified Fibre Wrap Replacement Works, which may also lead to an Evaluative PCD being set.

<b>SpC 3.33 Civil Related Works Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	Re-opener Guidance and Application Requirements Document

3.56 The reason for introducing this condition is to give effect to our decision in FDs to have a re-opener for NGET for interventions on its Civil Related Works portfolio.

3.57 The effect of the re-opener is to allow NGET to request funding for well justified Civil Related Works interventions, which may also lead to an Evaluative PCD being set.

<b>SpC 3.34 Tower Steelworks and Foundations Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	Re-opener Guidance and Application Requirements Document

3.58 The reason for introducing this condition is to give effect to our decision in FDs to have a re-opener for NGET for interventions in relation to its Tower Steelworks and Foundations portfolio.

3.59 The effect of the re-opener is to allow NGET to request funding for Tower Steelworks and Foundations interventions in line with the requirements set out in that condition, which may also lead to an Evaluative PCD being set.

<b>SpC 3.35 Tyne Crossing Project Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	Re-opener Guidance and Application Requirements Document

3.60 The reason for introducing this condition is to give effect to our decision in FDs to have a re-opener for NGET for the replacement of the Tyne Crossing.

3.61 The effect of the re-opener is to allow NGET to request funding where it is able to provide evidence justifying the need for this project, which may also lead to an Evaluative PCD being set.

<b>SpC 3.36 Bengeworth Road GSP Project Re-opener</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.62 The reason for introducing this condition is to give effect to our decision in FDs to have a re-opener for NGET for the Bengeworth Road GSP project.

3.63 The effect is to introduce a re-opener that can be triggered by the Authority where NGET has demonstrated that it is or was efficient for it to incur expenditure in relation to the Bengeworth Road GSP Project, which may also lead to an Evaluative PCD being set.

<b>SpC 3.37 Opex escalator</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Associated document	N/A

3.64 The reason for introducing this condition is to give effect to our decision in FDs that the ETOs are funded through an automatic mechanism for operational costs associated with capital expenditure provided through certain UMs.

3.65 The effect is to provide ETOs with opex allowances when capex allowances are funded through the relevant UM, and to ensure that those opex allowances are consistent with those set for baseline allowances.

### Special Conditions Chapter 4 - Output Delivery Incentives

<b>SpC 4.1 Total output delivery incentive performance</b>	
Type of change	New condition
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.66 The reason for introducing this condition is to calculate the output delivery incentives term, which in turn feeds into the calculation of calculated revenues.

3.67 The effect of the condition is to calculate the total of several output delivery incentive terms.

<b>SpC 4.2 Energy not supplied output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3C
RIIO-1 licence condition name	Reliability Incentive Adjustment in Respect of Energy Not Supplied
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.68 The purpose of this condition is to calculate the term that adjusts the licensee's revenue to reflect its performance against its Energy Not Supplied (ENS) baseline target.

3.69 The reason for modifying the current licence condition is to give effect to our decisions in the SSMD and to our Final Determination to provide clarification on the ENS Incentive Methodology Statement and ENS Exceptional Events related obligation, to establish obligations with respect to Incentivised Loss of Supply Events, and to provide a process to amend the value of lost load (VoLL).

3.70 The effect of the modifications is to:

- require the licensee to use best endeavours to apply the ENS Incentive Methodology Statement.
- set out the process for changing the incentivised loss of supply volume target after the ENS Incentive Methodology Statement has been amended.

- require the licensee to notify the Authority within 14 days of an ENS Exceptional Event, and to provide the Authority with detailed evidence of any such event within 30 days of that notification.
- provide for the amendment of the VoLL during the RIIO-2 period; and
- place obligations on the licensee with respect to Incentivised Loss of Supply Events.

<b>SpC 4.3 Insulation and Interruption Gas emissions output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3E
RIIO-1 licence condition name	Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions
Relevant licensees/relevant sectors	NGET, SHET, SPT
Associated document	N/A

3.71 The purpose of this condition is to calculate the term that adjusts the licensee’s revenue to reflect its performance against its SF6 baseline target, based on the volume of SF6 gas leaked from assets on its transmission network.

3.72 The reasons for modifying this condition are to give effect to our decisions in the SSMD to broaden the SF6 incentive to include leakage from other Insulation and Interruption Gases (IIGs), to calculate the baseline from well-justified additions to and disposals from the licensee's transmission network of assets that use IIGs, and to improve the definition of an exceptional leakage event.

3.73 The effect of the modifications is to:

- clarify the submission and assessment process around and definition of an IIG Exceptional Event.
- set out the RIIO-2 target baseline calculation and methodology.
- introduce an IIG term and associated formulas to allow for the inclusion of other IIGs.
- change the requirement for the methodology statement for the estimation of actual and expected leakage from IIGs.

<b>SpC 4.4 Timely Connections output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3G
RIIO-1 licence condition name	Financial Incentive for Timely Connections Output
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.74 The current licence condition requires that licensees achieve a 100% timely target for connection offers. Where offers are not made on time, the licensee will receive a penalty.

3.75 The reason for modifying the condition is to give effect to the decision made in the SSMD, to apply this condition across all three TOs for RIIO-2.

3.76 The effect of the changes is to maintain the overall mechanics of the incentive, but to simplify the drafting. The effect for NGET specifically is for this financial incentive to apply.

<b>SpC 4.5 Quality of Connections Survey output delivery incentive</b>	
Type of change	New condition
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.77 The reason for introducing this condition is to give effect to our FD decision that the TOs should have a Quality of Connections ODI.

3.78 The effect of the condition is to reward or penalise the TO's performance in relation to the outcome of their connections satisfaction survey score.

<b>SpC 4.6 Environmental Scorecard output delivery incentive</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET and SPT
Associated document	N/A

3.79 The reason for introducing this condition is to give effect to our decision in FDs that the TOs should have an environmental scorecard ODI.

3.80 The effect of the condition is to reward or penalise the TOs' performance in environmental areas specified in the licence condition compared to annual improvement thresholds. In relation to SPT and SHET, the condition also provides

for the incentive not to be turned on until the licensee has provided evidence to populate the values in the incentive.

<b>SpC 4.7 SO-TO Optimisation output delivery incentive</b>	
Type of change	New condition
Relevant licensees	NGET, SHET, SPT
Associated document	SO-TO Optimisation Governance

3.81 The reason for introducing this condition is to give effect to our final determination decision that the TOs and the ESO should have an SO-TO Optimisation ODI.

3.82 The effect of the condition is to set out the reward calculation methodology and the reporting requirements for this incentive.

<b>SpC 4.8 Consumer Value Proposition</b>	
Type of change	New special licence condition <sup>14</sup>
Relevant licensees	SHET and SPT
Associated document	N/A

3.83 The reason for introducing this condition is to deliver our decisions in SSMD and FDs in relation to consumer value propositions.

3.84 The effect of the condition is to:

- specify CVP outputs and rewards.
- introduce a reporting requirement for the licensee regarding delivery of its CVP.
- enable the recovery of CVP rewards where the licensee fails to deliver the relevant outputs.

## Special Condition Chapter 5- Other Revenue Allowances

<b>SpC 5.1 Total other revenue allowances</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Associated document	N/A

<sup>14</sup> This is condition 3.45 in the ET SpCs; 3.24 in the GD SpCs. Based on our proposals in DDs this condition has not been included in the GT SpCs.

3.85 The reason for introducing this condition is to calculate the other revenue allowances term, which in turn feeds into the calculation of calculated revenues.

3.86 The effect of the condition is to calculate the total of several other revenue allowance terms.

<b>SpC 5.4 Non-Technical Mitigation Projects allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Associated document	N/A

3.87 The reason for introducing this condition is to give effect to our decision in SSMD that the companies should have an allowance for non-technical mitigation projects to address the impact of transmission infrastructure in Designated Areas.

3.88 The effect of the condition is to specify associated allowances with an expenditure cap.

<b>SpC 5.5 Net Zero Fund use it or lose it allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	SPT
Associated document	N/A

3.89 The reason for introducing this condition is to give effect to our decision in FDs that SPT should have a use it or lose it allowance for a net zero fund.

3.90 The effect of the condition is to specify associated allowances, to require the licensee to submit an evaluation report, and to provide for an assessment of the use it or lose it allowance at the end of RIIO-2.

<b>SpC 5.6 Net Zero carbon capital construction use it or lose it allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

3.91 The reason for introducing this condition is to give effect to our decision in FDs that NGET should have a use it or lose it allowance for Net Zero carbon capital construction.

3.92 The effect of this condition is to specify the outputs and associated allowances, to require NGET to submit an evaluation report, and to provide for the assessment of the use it or lose it allowance.

<b>SpC 5.7 Transmission investment for renewable generation</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3J
RIIO-1 licence condition name	Transmission investment for renewable generation
Relevant licensees/relevant sectors	SPT, SHET
Associated document	N/A

3.93 The current licence condition allows for the funding mechanism for Transmission Investment in Renewable Generation projects.

3.94 The effect of this condition is to continue this funding mechanism for RIIO-2.

3.95 This condition will cease to have effect during the RIIO-2 period for both SHET and SPT.

### Special Conditions Chapter 6 – Pass-Through

<b>SpC 6.1 Pass-through items (PTt)</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3B
RIIO-1 licence condition name	Calculation of allowed pass-through items
Relevant licensees/relevant sectors	SPT, NGET, SHET
Associated document	N/A

3.96 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover, including the RBt term (prescribed rates), the EDEt term (pensions scheme established deficit), the TPDt term (temporary physical disconnection costs). This condition includes the SHCpt term (ENS compensatory scheme) which is set out below.

3.97 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles.

3.98 The effect of the amended condition is as set out in the finance chapter above in relation to those changes and to improve its clarity.

3.99 For NGET’s pass through condition specifically, we have removed the terms Lft (licence fee payments) and ITct (inter-transmission system operator compensation).

3.100 The reason for removing these pass-through items is that we have proposed transferring the responsibility for these LfT (licence fee payments) and ITcT (inter-transmission system operator compensation) pass through terms to the ESO in RIIO2. We have created a legacy pass through licence in chapter 7 which allows for the close out of these terms.

<b>SpC 6.2 Energy Not Supplied Compensatory Scheme pass-through</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3C Part D
RIIO-1 licence condition name	Reliability Incentive Adjustment in Respect of Energy Not Supplied, Part D
Relevant licensees	SHET
Associated document	N/A

3.101 The purpose of Part D of the current RIIO-ET1 condition is to calculate the term that adjusts the licensee’s revenue to reflect payments SHET has made in RIIO-ET1 in accordance with the RIIO-ET1 Compensatory Payment Statement.

3.102 The reasons for amending the current licence condition are to give effect to our decision in FDs to separate the compensatory payments for Loss of Supply Events from the Energy Not Supplied Output Delivery Incentive because it is a pass-through item, and to create additional obligations on the licensee in relation to ENS.

3.103 The effect of the changes is to:

- separate the compensatory payments for Loss of Supply Events from the Energy Not Supplied Output Delivery Incentive.
- require the licensee to set out the methodology it will use to calculate compensatory payment amounts.
- require the licensee to review that methodology at least every two years; and
- require the licensee to use best endeavours to apply the methodology.

### **Special Conditions Chapter 7 - Legacy**

<b>SpC 7.2 Close out of the RIIO-ET1 pass-through items</b>	
Type of change	Close out of RIIO-T1 pass through items
RIIO-1 Number	SpC 3B
RIIO-1 licence condition name	Calculation of allowed pass-through items
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.104 The purpose of the current RIIO-1 condition is to determine the licensee's allowed pass through items.

3.105 The reason for this RIIO-2 condition is to allow for the calculation of the RIIO-1 pass through items that have a two year lag (RBt and LTPDt).

3.106 In addition for NGET, we have transferred the responsibility for LLFt (licence fee payments) and LITCt (inter-transmission system operator compensation) pass through terms to the ESO in RIIO2.

3.107 The effect is also to allow for the close out of the RIIO-1 pass through calculations. For NGET specifically, the effect is to close out the use of the ICT and LFt terms in the ET1 price control.

<b>SpC 7.6 Close out of the RIIO-ET1 Stakeholder Satisfaction Output</b>	
Type of change	Close out of RIIO-T1 condition
RIIO-1 number	SpC 3D
RIIO-1 licence condition name	Stakeholder satisfaction output
Relevant licensees	NGET, SHET, SPT
Associated document	Stakeholder Engagement Reward Guidance

3.108 The current condition calculates the financial reward received in relation to performance under the Stakeholder satisfaction output.

3.109 The reason for the modifications is to give effect to the SSMD where we decided to discontinue the following components of the Stakeholder Satisfaction Output: the stakeholder engagement incentive, stakeholder satisfaction survey, key performance indicators (KPIs) and external assurance. For NGET, we also decided to discontinue the following components of the Stakeholder Satisfaction Output: stakeholder engagement incentive, stakeholder satisfaction survey and customer satisfaction survey.

3.110 The effect of the changes is to close out this incentive with any final payments to be made in in Regulatory Year 2021/22 and Regulatory Year 2022/23.

<b>SpC 7.7 Close out of the RIIO-1 adjustment in respect of the Environmental Discretionary Reward Scheme</b>	
Type of change	Close out of RIIO-T1 condition
RIIO-1 number	SpC 3F
RIIO-1 licence condition name	Adjustment in Respect of the Environmental Discretionary Reward Scheme
Relevant licensees	NGET, SHET, SPT
Associated document	Environmental Discretionary Reward Scheme

3.111 The current condition calculates the financial reward received in relation to the RIIO-ET1 Environmental Discretionary Reward Scheme.

3.112 The reason for the modifications is to give effect to our decision in the SSMD to discontinue the Environmental Discretionary Reward in RIIO-ET2.

3.113 The effect of the changes is to close out this incentive with any final payments to be made in Regulatory Year 2021/22 and Regulatory Year 2022/23.

<b>SpC 7.8 Close out of RIIO-ET1 Incentive in Respect of Sulphur Hexafluoride Gas Emissions incentive</b>	
Type of change	Close out of RIIO-T1 condition
RIIO-1 number	SpC 3E
RIIO-1 licence condition name	Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.114 The purpose of the current RIIO-1 condition is to determine the licensee's financial reward or penalty in respect of its performance under the SF6 gas emissions incentive.

3.115 The reason for the modifications is to close out that incentive as the RIIO-T2 incentive, the Insulation and Interruption Gas emissions Output Delivery Incentive, will include emissions from SF6 as well as other IIGs.

3.116 The effect of this condition will be to close out the RIIO-T1 incentive with any final payments to be made in Regulatory Year 2021/22 and Regulatory Year 2022/23.

<b>SpC 7.9 Close out of RIIO-ET1 Reliability incentive in respect of Energy Not Supplied (LRIt)</b>	
Type of change	Close out of RIIO-T1 condition
RIIO-1 Number	SpC 3C
RIIO-1 licence condition name	Reliability Incentive Adjustment in Respect of Energy Not Supplied
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.117 The purpose of the current RIIO-1 condition is to determine the licensee's financial reward or penalty in respect of its performance under the Reliability Incentive in Respect of Energy Not Supplied.

3.118 The reason for the modifications is to close out that incentive as the RIIO-T2 incentive will have different baseline targets.

3.119 The effect of this condition is to close out the RIIO-T1 incentive with any final payments to be made in Regulatory Year 2021/22 and Regulatory Year 2022/23. For SHET, this will include payments made in accordance with the RIIO-ET1 Compensatory Payment Statement.

### **Special Conditions Chapter 9 General Obligations**

<b>SpC 9.9 Activities Restrictions</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2A
Relevant licensees	SPT, NGET, SHET
Associated document	N/A

3.120 The purpose of this condition is to set out the activity restrictions of the licensee.

3.121 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.122 The effect of the amended condition is to improve its clarity.

<b>SpC 9.10 Network Access Policy</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2J
Relevant licensees	SPT, NGET, SHET
Associated document	N/A

3.123 The purpose of this condition is to require the licensees to have in place and maintain a Network Access Policy (NAP) and to set out the process for amending it.

3.124 In the SSMD, we decided to retain the obligation for the licensees to have a NAP in place but to require them to have one consolidated NAP, rather than each ET licensee having a separate NAP. The reasons for modifying the current licence condition are to give effect to this decision.

3.125 The effect of the proposed modifications will be to require each of the ET licensees to have in place and maintain a single, consolidated NAP and to require them to work together to amend it, and to clarify the process for amending the NAP.

<b>SpC 9.11 Provision of Information to the System Operator</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2N
Relevant licensees	SPT, NGET, SHET

3.126 The purpose of this condition is to require the licensee to notify the System Operator of the revenue to be collected via transmission network charges.

3.127 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles and to reflect that the notified value no longer needs to exclude the 'EXS' value. Those values are now included in the PCFM.

3.128 The effect of the amended condition is to improve its clarity and to standardize the treatment of directly remunerated services.

<b>SpC 9.12 Basis of Transmission Owner charges</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8C
Relevant licensees	SPT, NGET, SHET

3.129 The purpose of this condition is to set out the requirements for the licensee to prepare and have in place a Statement of Transmission Owner Charges.

3.130 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.131 The effect of the amended condition is to improve its clarity.

**SpC 9.13 Allowances in respect of a security period**

Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3K
Relevant licensees	SPT, NGET, SHET

3.132 The purpose of this condition is to set out the process for the recovery of security costs in respect of a security period.

3.133 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.134 The effect of the amended condition is to improve its clarity.

**SpC 9.14 Restriction on the use of certain information**

Type of change	Amendment to existing condition
RIIO-1 number	SpC 2B
Relevant licensees	SPT, SHET

3.135 The purpose of this condition is to set out the restriction on the use of confidential information by the TOs.

3.136 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.137 The effect of the amended condition is to improve its clarity.

**SpC 9.15 Appointment of a Compliance Officer**

Type of change	Amendment to existing condition
RIIO-1 number	SpC 2H
Relevant licensees	SPT, SHET

3.138 The purpose of this condition is to set out the requirement on the licensees to appoint a compliance officer and to prepare a compliance statement and report.

3.139 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.140 The effect of the amended condition is to improve its clarity.

<b>SpC 9.16 Independence of and appointment of managing director of the Transmission Business</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2I
Relevant licensees	SPT, SHET

3.141 The purpose of this condition is to set out requirements on the licensee to establish and maintain operational and managerial independence of the Transmission Business and any External Transmission Activities. This condition also requires the licensee to appoint a Managing Director of Transmission to be responsible for the conduct of the Transmission Business and any External Transmission Activities.

3.142 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.143 The effect of the amended condition is to improve its clarity.

<b>SpC 9.17 Prohibited Activities and Conduct of the Transmission Business</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2C
Relevant licensees	NGET

3.144 The purpose of this condition is set out the prohibited activities of licensee and the conduct of the transmission business.

3.145 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.146 The effect of the amended condition is to improve its clarity.

<b>SpC 9.18 Business Separation requirements and compliance obligations</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2O
Relevant licensees	NGET

3.147 The purpose of this condition is to set out the business separation requirements between the licensee and the Relevant Other Competitive Businesses, and the process the licensee must follow to comply with these obligations.

3.148 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles.

3.149 The effect of the amended condition is to improve its clarity.

### Removed conditions

<b>Transmission Area</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1B
Relevant licensees	NGET, SHET, SPT
Associated document	N/A

3.150 The purpose of this condition is to define the Transmission area for each TO.

3.151 The reason for amending the current licence condition is because we have moved this definition to Part B of SpC 1.1.

3.152 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>Electricity Transmission Losses reporting</b>	
Type of change	Complete removal of a RIIO-1 condition
RIIO-1 number	SpC 2K
Relevant licensees	SPT, NGET, SHET
Draft Determinations reference	ET Sector Annex paragraphs 2.107
Associated document	N/A

3.153 The current condition requires licensees to have in place a strategy for minimising losses on their networks, and to publish annually a report setting out the level of losses on their networks in the previous year, progress made on the implementation of their strategies and any changes or revisions to those strategies.

3.154 The reason we are modifying this condition is to give effect to our decision in SSMD to retain the losses annual reporting requirements, but to integrate them within the wider annual environmental performance reporting. As a result, a separate condition is no longer required for losses reporting; instead, the requirements will be covered in the new SpC 9.1 Annual Environmental Reporting.

3.155 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>Transmission Investment for Renewable Generation</b>	
Type of change	Complete removal of a RIIO-1 condition
RIIO-1 number	SpC 3J
Relevant licensees	NGET <sup>15</sup>

3.156 The current licence condition allows for the funding mechanism for Transmission Investment in Renewable Generation projects (TIRG).

3.157 The reason for removing it for NGET is because NGET's Transmission Investment for Renewable Generation (TIRG) incentive revenues were finalised by the end of year 2015/16, at which point they were transferred into the PCFM and this condition was no longer needed.

3.158 The effect of the change is tidy up the licence by removing a redundant condition.

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<sup>15</sup> The amended version of this licence condition for the other ET licensees is SpC 5.7.

## 4. Proposed Changes to Electricity Transmission and Electricity System Operator Licence Conditions

### Section summary

This chapter sets out our proposed changes that apply to both ET and ESO. It also sets out why we are making those changes and their effect.

### Reason and effect for proposed Electricity Transmission and Electricity System Operator's Conditions

#### Standard Licence Conditions

<b>SLC A1 Definitions and Interpretation</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SLC A1
RIIO-1 licence condition name	Definitions and Interpretations
Relevant licensees	ESO, NGET, SHET, SPT, OFTOs
Associated document	N/A

- 4.1 This condition sets out the definitions that apply in the SLCs.
- 4.2 The reason for the amendment is to amend or insert defined terms in line with our other proposed licence modifications.
- 4.3 The effect of the amendment is to provide greater clarity to the interpretation and application of the licence conditions.

<b>SLC A7 Offshore Transmission Implementation</b>	
Type of change	Removal of existing licence condition
Relevant licensees	ESO, OFTOs
Draft determination reference/SSMD reference	N/A
Associated document	N/A

- 4.4 This condition requires the licensees to take certain steps and do certain things within its power, which are necessary or expedient for the purposes of

implementing the British electricity trading and transmission arrangements ('BETTA').

- 4.5 The reason for the removal of this condition is that the 'offshore transmission implementation period' has now expired (the period ending 18 months after offshore transmission go-active). Therefore, this condition no longer has any effect.
- 4.6 The effect of this deletion is to tidy up the licence by removing a redundant condition.

<b>SLC B12 System Operator - Transmission Owner Code</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO, NGET, SHET, SPT, OFTOs
RIIO-1 number	Standard Licence Condition B12
RIIO-1 licence condition name	System Operator Transmission Owner Code
Associated document	N/A

- 4.7 This condition sets out the requirement to have a System Operator Transmission Owner Code (STC).
- 4.8 Following the decision to reallocate the TNUOS cashflow risk away from the ESO to the onshore TOs<sup>16</sup>, we propose to amend this licence condition to include a requirement for the STC to set out the terms by which the ESO will allocate received transmission network revenue, consistent with the principles that the system operator will only pay invoiced transmission network revenue, net of payments to offshore transmission owners and other parties, to onshore transmission owners, and any under-or over-recovery will be shared between onshore TOs, proportionate to their share of onshore TO revenue. The effect of this amendment is to require the licensee to use its reasonable endeavours to ensure terms are in place that facilitate its compliance with the requirements of this condition no later than 1 July 2021.

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<sup>16</sup> Transmission Network Use of System (TNUoS) cashflow timing decision:

<https://www.ofgem.gov.uk/publications-and-updates/transmission-network-use-system-tnuos-cashflow-timing-consultation>

<b>SLC B13 BETTA Implementation</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	NGET, SHET, SPT, ESO
Associated document	N/A

4.9 This condition requires the licensees to take certain steps and do certain things within its power, which are necessary or expedient for the purposes of implementing the British electricity trading and transmission arrangements ('BETTA').

4.10 The condition expired in accordance with its own provisions on 1 April 2006. The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SLC B14 BETTA run-off arrangements scheme</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	NGET, SHET, SPT, ESO
Associated document	N/A

4.11 This condition requires licensees to comply with the BETTA run-off arrangements scheme in preparation for the implementation of BETTA.

4.12 The condition expired and so this condition is no longer required. The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SLC C16 Procurement and use of balancing services</b>	
Type of change	Amendment to existing condition
Relevant licensees	ESO
Associated document	N/A

4.13 The purpose of this condition is to determine how the licensee should co-ordinate the flow of electricity over the transmission systems in an economic and efficient manner. It also requires the ESO to produce statements and methodologies to ensure transparency when carrying out its role.

4.14 We have amended this condition in order to broaden and clarify the expectations on the ESO for RIIO-2. This has involved the transfer of certain obligations from SLC C16 (eg those under paragraph 1) into a new standalone condition (see SLC C28 below). We have also amended the structure of this condition to provide

greater clarity around the ESO's obligations to produce statements and methodologies for balancing services.

- 4.15 The effect of these modifications is to ensure the ESO's licence is streamlined and consistent with the ESO's regulatory framework for RIIO-2.

<b>SLC C28: Functions for an efficient, co-ordinated and economic system operator</b>	
Type of change	New condition
Relevant licensees	ESO
Associated document	ESO Roles Guidance

- 4.16 The reason for introducing this condition is to clearly and transparently set out the expectations of an efficient, co-ordinated and economic ESO. We considered that the licence could better reflect the full scope of the ESO's roles by providing clarity on expectations across a diverse set of roles beyond existing obligations in paragraph 1 of SLC C16.

- 4.17 The effect of this condition is to provide the licensee with greater clarity and transparency around our minimum expectations across the full scope of the ESO's roles and obligations. The condition reflects existing expectations and those set out in the Business Plan proposals. This condition also merits further changes to the ESO Roles Guidance document, which we have published alongside this consultation, to ensure a clear link is maintained between this guidance document and the ESO's licence.

## 5. Proposed Changes to the Gas Transmission and Gas Distribution Licence Conditions

### Section summary

This chapter sets out our proposed changes that apply to both GT and GD. It also sets out why we are making those changes and their effect.

### Reason and effect for proposed Gas Transmission and Gas Distribution Licensee's Conditions

SSC A3 Definitions and Interpretation	
Type of change	Amendment to existing licence condition
RIIO-1 number	SSC A3
RIIO-1 licence condition name	Definitions and Interpretations
Relevant sectors	GD and GT
Associated document	N/A

5.1 This condition sets out the definitions that apply in the SSCs.

5.2 The reason for the amendment is to:

- amend or insert defined terms in line with our other proposed licence modifications.
- remove licensee as a defined term, because it is already defined in the terms of the licence.
- amend the definition of DN Operator and NTS Operator to remove references to conditions that are no longer in force.
- insert a new general interpretation paragraph at SSC A3 that replaces the need for the current definition of licensee in SSC A3 and the supplementary paragraphs in SSC A36, A37 and A39.<sup>17</sup>

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<sup>17</sup> The paragraph we are deleting also features in the current version of SSC A38, however this is being redrafted as part of the Indebtedness condition.

- 5.3 The effect of the amendment is to provide greater clarity to the interpretation and application of the licence conditions.

<b>SSC A36, A37 and A39 Alternative Definition of Licensee</b>	
Type of change	Amendment to existing licence conditions
RIIO-1 number	SSC A36, SSC A37 and SSC A39
RIIO-1 licence condition name	Restriction on Activity and Financial Ring Fencing, Availability of Resources, Indebtedness
Relevant sectors	GD and GT
Associated document	N/A

- 5.4 The reason for the amendment is to remove the paragraphs that say that those conditions apply to the single legal entity that holds one or more licences because we are including a new interpretation paragraph in SSC A3, which means the supplementary definitions in paragraphs SSC A36, A37 and A39, are no longer required.
- 5.5 The effect of the amendment is to provide greater clarity to the interpretation and application of the licence conditions.

<b>SSC A8 Emergency Services and Enquiry Service Obligations</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SSC A8
RIIO-1 licence condition name	Emergency Services and Enquiry Service Obligations
Relevant sectors	GD and GT
Associated document	N/A

- 5.6 The current condition requires licensees to establish, operate and maintain an emergency response phone line.
- 5.7 The reason for the change is to implement the decision in SSMD to align the obligations in gas with those in electricity distribution.
- 5.8 The effect of this modification is to require licensees to ensure that the emergency response telephone service for customers to report gas leaks is available to receive calls at all times.

<b>SSC A15 Agency</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	N/A

5.9 The purpose of this condition is to require the licensee to enter into an agency service agreement with other relevant licensees and ensure the provision of common 'agency' services and system, which Xoserve provided prior to 1 April 2017.

5.10 The reason for removing the condition is because the condition was switched off on 1 April 2017 and replaced by SSC A15A (Central Data Service Provider) to establish new funding and governance arrangements for the gas central data service provider (Xoserve).

5.11 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SSC A15 Central Data Service Provider</b>	
Type of change	Amended condition
RIIO-1 number	SSC A15A
RIIO-1 licence condition name	Central Data Service Provider
Relevant sectors	GD and GT
Associated document	N/A

5.12 The current condition requires licensees to appoint a Central Data Service Provider (CDSP) and sets out obligations that the licensee must comply with regarding the ongoing operation of the CDSP.

5.13 The reason for amending the current condition is because Xoserve has now been appointed as the CDSP. We are also proposing to update the numbering of the condition to A15, as we are proposing to remove the current A15 (Agency) condition.

5.14 The effect of the changes is to require the licensees to ensure the continued appointment of a CDSP.

<b>SSC A14, A31 and A48 Consequential changes to references to SSC A15 and A15A</b>	
Type of change	Amended conditions
RIIO-1 number	SSC A14, A31 and A48
RIIO-1 licence condition name	Availability of Data Formats, Supply Point Information Service, Last Resort Supply: Payment Claims
Relevant sectors	GD and GT
Associated document	N/A

5.15 The reason for the amendments is to remove cross references to the removed condition A15 (Agency), and to correct references to the newly renumbered A15 (Central Data Services Provider) condition.

5.16 The effect of the amendment is to improve clarity by correcting the cross references to removed and renumbered conditions.

<b>SSC A49 Designated Registrar of Pipes</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	N/A

5.17 The purpose of this condition is to require licensees to establish, operate and maintain or procure the establishment, operation and maintenance of the Main Administration Service.

5.18 The reason for removing the condition is because the condition is not used and is therefore no longer relevant or needed in the licence.

5.19 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SSC A51 Information to be Provided to a Designated Registrar of Pipes</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	N/A

5.20 The purpose of this condition is to set out what information the licensee needs to provide to the Designated Registrar of Pipes when it commissions a new main.

5.21 The reason for removing the condition is because the condition is no longer relevant or needed in the licence.

5.22 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SSC A57 Exit Capacity Planning</b>	
Type of change	New condition
Relevant sectors	GD and GT
Associated document	ECP Guidance

5.23 The reason for introducing this condition is because we have decided in DDs to remove the RIIO-GD1 exit capacity incentive and replace it with a set of enhanced obligations (set out in an associated document) that will require licensees to be efficient in their booking of exit capacity.

5.24 The effect of the amendments is to require licensees to comply with the obligations set out in the new associated document, the Exit Capacity Planning Guidance.

## 6. Proposed Changes to the Gas Transmission Licence Conditions

### Section summary

This chapter explains the changes to the GT licence conditions, why we are making those changes, and their effect.

## Reason and effect for proposed Gas Transmission Licence Conditions

### Special Conditions - Chapter 1: Interpretation and definitions

<b>SpC 1.2 Amendments to the standard special conditions for the purposes of this licence</b>	
Type of change	Amendment to existing licence conditions
RIIO-1 number	SpC 1C and SpC 1D
RIIO-1 licence condition names	NTS definition of supply of transportation services; and Charging obligations
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.1 The purpose of this condition is to amend the definition of “supply of transportation services” in SSC A3 (Definitions and Interpretation) and to amend Standard Special Conditions A4 (charging – General) and A5 (Obligations as Regard Charging Methodology).
- 6.2 The reason for amending the current licence condition is to clarify that the amended definition only applies in relation to NGGT’s licence and not all GT and GD licensees to which SSC A3, SSC A4 and SSC A5 apply.
- 6.3 The effect of the amended condition is to improve the clarity of this condition.

**Special Conditions - Chapter 3: Totex Allowance adjustments**

<b>SpC 3.10 Bacton terminal site redevelopment Re-opener and Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

6.4 The reason for introducing this condition is to give effect to our decision in FDs that NGGT should have a PCD to do further engineering work on the Bacton Terminal Redevelopment project, and to create a re-opener to allow NGGT to submit a request for full funding for the project.

6.5 The effect of the condition is to set an up front allowance for NGGT to undertake project development and engineering work, with delivery of a Final Options Selection Report set as the PCD output. It establishes a re-opener where NGGT has progressed to a Final Preferred Option for the Bacton Terminal Redevelopment project in order to amend the output, delivery dates and allowances for the final option. It also provides for assessment of the PCD.

<b>SpC 3.11 Compressor emissions Re-opener and Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

6.6 The reason for introducing this condition is to give effect to our decision in FDs that NGGT should have a PCD for compressor emissions projects, and to create a re-opener for some projects to allow new outputs to be set.

6.7 The effect of the condition is to set outputs, delivery dates and allowances for each compressor project. For Hatton, the condition provides an up front allowance for delivering emissions compliance at the site.

6.8 For all other sites, the licence provides an allowance for NGGT to carry out engineering work and submit to us a Final Options Selection Report and establishes a re-opener in order to amend the output, delivery dates and allowances for the final options. It also provides for assessment of the PCD.

<b>SpC 3.12 King's Lynn subsidence Re-opener and Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

6.9 The reason for introducing this condition is give effect to our decision in FDs that NGGT should have a PCD to address subsidence issues at King’s Lynn compressor station and to create a re-opener for the final project costs.

6.10 The effect of the condition is to set an up front allowance for NGGT to undertake options selection and engineering design for the King’s Lynn Subsidence project. It establishes a re-opener to amend the output, delivery dates and allowances for the final project. It also provides for assessment of the PCD.

<b>SpC 3.13 Funded incremental obligated capacity Re-opener and Price Control Deliverable</b>	
Type of change	Amendment to existing licence conditions
RIIO-1 number	SpC 5F / SpC 5G
RIIO-1 licence condition name	Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Entry Points / Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Exit Points
Relevant licensees/relevant sectors	GT
Associated document	Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document

6.11 The purpose of the current conditions is to provide allowances for Funded Incremental Obligated Entry Capacity (SpC 5F) and Funded Incremental Obligated Exit Capacity (SpC 5G). They also set out Licence Baseline Capacity, Capacity Substitution, and the process for the creation of new Zero Licence Baseline Capacity Points for Entry Capacity (SpC 5F) and Exit Capacity (SpC 5G).

6.12 The reason for amending the current licence conditions is to establish a robust process for managing potential costs associated with the release of Incremental Obligated Capacity. This gives effect to the decision to introduce a re-opener communicated in our SSMDs, the design of which was decided in our Final Determinations.

- 6.13 This will be achieved via a re-opener mechanism, which will lead to the setting of PCDs and will replace the revenue driver in RIIO-T1.
- 6.14 We have also divided the content of conditions 5F and 5G differently, such that one condition (this condition - SpC 3.13) is a re-opener covering entry and exit capacity, and a second condition (SpC 9.13) covers Notification of requests for Firm Entry and Firm Exit Capacity, Licence Baseline Capacity, Capacity Substitution, and the process for the creation of new Zero Licence Baseline Capacity Points for Entry and Exit. The reason for dividing the content of conditions 5F and 5G in this manner is to avoid unnecessary duplication in the licence, and to separate out the re-opener & PCD aspects from the non re-opener processes and requirements. We have therefore also renamed the two conditions.
- 6.15 The effect of the amendments to 5F and 5G as far as they relate to SpC 3.13 is to establish a re-opener for the licensee to apply for an adjustment to its allowed expenditure to release Incremental Obligated Entry or Exit Capacity where this cannot be met through substitution and to allow for the specification and assessment of PCDs as a result of the re-opener. This replaces the previous RIIO-1 Revenue Driver mechanisms detailed in SpC 5F and Spc 5G.
- 6.16 The condition also establishes the basis for the Funded Incremental Obligated Capacity Guidance and Submissions Requirements Document, which provides additional information on the process for applying for a direction to adjust allowed expenditure. This is an Associated Document to the licence.

<b>SpC 3.14 Asset health Re-opener</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Re-opener Guidance and Application Requirements Document

- 6.17 The reason for introducing this condition is to give effect to our decision in FDs to allow for an adjustment to NGGT’s allowance for asset health work where costs are uncertain.
- 6.18 The effect of the condition is to establish a re-opener window in year 3 of the price control for NGGT to submit supporting evidence to allow Ofgem to set an allowance for asset health work for Compressor Cabs and Plant and Equipment. The re-opener window will also be used to assess whether changes are needed to the SpC 3.1 Baseline Network Risk Output and SpC 3.15 Asset Health – Non Lead

Assets PCD. It also provides for a true up of costs spent in years 1 and 2 of the price control.

<b>SpC 3.15 Asset health - non-lead assets Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Price Control Deliverable Reporting Requirements and Guidance

6.19 The reason for introducing this condition is to give effect to our decision in FDs to set a PCD for asset health work on non-lead assets, as these fall outside of the remit of SpC 3.1 Baseline Network Risk Output.

6.20 The effect of the condition is to set outputs, delivery dates and allowances for the asset health non-lead assets PCD and provide for the assessment of the PCD.

<b>SpC 3.16 Redundant Assets Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	Price Control Deliverable Reporting Requirements and Guidance

6.21 The reason for introducing this condition is to give effect to our decision in FDs to set a PCD for NGGT to decommission a number of redundant assets and to decommission compressors that no longer meet emissions compliance legislation in RIIO-GT2.

6.22 The effect of the condition is to specify outputs, delivery dates, and associated allowances for the Redundant Assets PCD and provide for the assessment of the PCD.

<b>SpC 3.17 Uncertain Costs Re-Opener</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 5E
RIIO-1 licence condition name	Arrangements for the recovery of uncertain costs
Relevant licensees/relevant sectors	GT
Associated document	Re-opener Guidance and Application Requirements Document

6.23 The current RIIO-1 licence condition provides a re-opener mechanism for the following uncertain costs:

- Enhanced Physical Site Security Costs.

- Industrial Emissions Costs.
- Pipeline Diversion Costs.
- Quarry and Loss Development Claim Costs.
- One-off Asset Health Costs.
- Network Flexibility Costs.
- PARCA Termination Value.

6.24 The reason for amending the current RIIO-1 licence condition is because our decisions on each of these areas means that they no longer logically fit together in the same licence condition. SpC 3.4 now captures Enhanced Physical Site Security Costs, SpC 3.11 captures Industrial Emissions Costs, SpC 6.1 captures PARCA Termination Value, and One-off Asset Health Costs and Network Flexibility Costs have been completely removed as per our SSMD.

6.25 The effect of the amendments is that only Pipeline Diversion Costs and Quarry and Loss Development Claims Costs remain in this condition, which specifies the process for the Authority or Licensee to trigger a re-opener to adjust those costs.

<b>SpC 3.18 Opex escalator</b>	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGGT
Associated document	N/A

6.26 The reason for introducing this condition is to give effect to our decision in FDs that NGGT be funded through an automatic mechanism for operational costs associated with capital expenditure provided through certain UMs.

6.27 The effect is to provide NGGT with opex allowances when capex allowances are funded through the relevant UM, and to ensure that those opex allowances are consistent with those set for baseline allowances.

#### **Special Conditions - Chapter 4: Output delivery incentives**

<b>SpC 4.1 Total output delivery incentive performance</b>	
Type of change	New condition
Relevant licensees	NGGT
Associated document	N/A

6.28 The reason for introducing this condition is to calculate the output delivery incentives term, which in turn feeds into the calculation of calculated revenues.

6.29 The effect of the condition is to calculate the total of several output delivery incentive terms.

<b>SpC 4.2 Customer satisfaction survey output delivery incentive</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGGT
Associated document	N/A

6.30 The reason for introducing this condition is to give effect to our decision in FDs to have a Customer satisfaction survey ODI.

6.31 The effect of the condition is to reward or penalise NGGT's performance in relation to the outcome of a customer satisfaction survey.

<b>SpC 4.3 Environmental scorecard output delivery incentive</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.32 The reason for introducing this condition is to give effect to our decision in FDs to have an environmental scorecard ODI.

6.33 The effect of the condition is to reward or penalise NGGT's performance in seven environmental areas compared to annual improvement thresholds. The condition also provides for the value of the Environmental Net Gain element to be switched off until the licensee provides evidence on what the relevant values for that element should be.

## **Special Conditions - Chapter 5: Other revenue allowances**

<b>SpC 5.1 Transportation owner other revenue allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGGT
Associated document	N/A

6.34 The reason for introducing this condition is to calculate the other revenue allowance TO term, which in turn feeds into the calculation of calculated revenues.

6.35 The effect of the condition is to calculate the total of several other TO revenue allowance terms.

<b>SpC 5.4 System operator other revenue allowance</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGGT
Associated document	N/A

6.36 The reason for introducing this condition is to calculate the other revenue allowance SO term, which in turn feeds into the calculation of calculated revenues.

6.37 The effect of the condition is to calculate the total of several other SO revenue allowance terms.

<b>SpC 5.5 Entry Capacity and Exit Capacity Constraint Management</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3B
RIIO-1 licence condition name	Entry Capacity and Exit Capacity Constraint Management
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.38 The reason for the amendments is to give effect to our decision in FDs to amend the Constraint Management incentive. Another amendment has been made to extend time limits in determining the variation to the Constraint Management operational target, to give the Authority greater flexibility of approval in line with the new funded incremental reopener process.

6.39 The effect of the amendments is to change the Constraint Management incentive's baseline target, cap, collar and Constraint Management sharing factor. Additional changes reflect decisions in FDs to remove revenue gained from scale back of interruptible and off-peak capacity, remove revenue from system entry overrun charges, and introduce a review of the Constraint Management incentive. The cost allowance term – and corresponding cost adjustment term – have also been removed. The time limits outlined in paragraphs 5.5.16(a), (b) and 5.5.17 for the Authority to approve/reject proposed applications for changing the Constraint Management operational target have been amended to 28 days, 56 days and 56 days respectively.

<b>SpC 5.6 System operator external incentives, revenues and costs</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpCs: 3D; 8C; 8E; 8G; 8H; and 8K
RIIO-1 licence condition name	NTS System Operator external incentives, costs and revenues; Procurement of Operating Margins; Requirement to undertake UAG Projects to investigate the causes of Unaccounted for Gas (UAG); Maintenance and Operational Planning; Greenhouse Gas Emissions Calculation Methodology; and Requirement to report on the length of Short and Long In-Line Inspections (ILIs)
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.40 The purpose of this condition is to outline the obligations in relation to gas system operator services and the application of gas system operator external incentives on the licensee, including the methods to calculate the financial incentive performance of the licensee against certain system operator incentives.

6.41 The reason for amending the current licence condition is to give effect to our decisions in the SSMD and decisions in the FDs to update the licensee’s incentives, outputs and obligations to deliver certain system operator services for the RIIO-GT2 price control period.

The effect of the amendments is to:

- remove applicable revenue streams in respect of calculating the system operator incentive revenue and costs term ( $SOIRC_t$ ).
- remove the financial incentive revenue term for NTS Shrinkage ( $SIR_t$ ), and include enhanced reporting obligations on the licensee around unaccounted for gas (formerly in SpC 8E in RIIO-1 and now moved into SpC 5.6), calorific value shrinkage, metering and costs of shrinkage each year. A revised forecasting methodology and a review of NTS Shrinkage will also be written into Part K and Part L.
- adjust baseline targets and amend calculation of the linepack performance measure and price performance measure mechanisms for the Residual Gas Balancing incentive, in line with the reduced incentive caps and collars, and change of the LPM target during shoulder months.
- remove the two to five days ahead demand forecasting incentive revenue term and amend the calculation of the day ahead demand forecasting incentive revenue term, cap, collar and demand forecast storage adjustment

term for the Quality of Demand Forecasting incentive. We have also introduced licence obligations for the licensee to report on two to five days ahead demand forecasting annual performance and report on projects undertaken to improve day ahead demand forecasting.

- amend the calculation of the GHG Emissions incentive revenue term in line with adjusted cap and collar and change the venting equivalent factor for the Greenhouse Gas Emissions incentive. We have also removed the Greenhouse Gas Emissions Project Costs term and Greenhouse Gas Emissions Investigations mechanism term as these are no longer applicable for the RIIO-GT2 price control period. We have moved the obligations on the licensee maintaining the Greenhouse Gas Emissions Calculations Methodology (previously outlined in SpC 8H in RIIO-1) into this condition, and amended the time limit for approving/rejecting proposed revisions to the Methodology from 28 days to 56 days, as well as outlining what will happen where the Authority takes no action within this time limit.
- introduce a new licence term and calculations in the Maintenance incentive to reflect the new scheme element on alignment with customer workload for maintenance that excludes remote valve operations, with a financial upside and downside. We have made changes to existing Maintenance incentive revenue terms and calculations to reflect the downside only elements of the incentive for the RIIO-GT2 price control period. The licensee’s obligations to report on the length of in-line inspections and obligations in respect of the maintenance planning – both of which previously existed in chapter 8 in RIIO-1 – will be moved into this condition, and the obligation for the licensee to update its maintenance plan once each Regulatory Year will be a ‘must update’ obligation instead of a ‘reasonable endeavours’ obligation.
- move the licensee’s obligations on Procurement of Operating Margins, previously in chapter 8 in RIIO-1, into this condition, whilst adding a requirement for Operating Margins Reports to include purchasing activities and exchange trades as part of the licensee’s obligations in RIIO-GT2.

## **Special Conditions - Chapter 6: Pass-through expenditure**

<b>SpC 6.1 Transportation owner pass-through items</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2B
RIIO-1 licence condition name	Calculation of allowed pass-through items
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.42 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover.
- 6.43 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles. The PARCA Termination Value has been moved into this condition from what is now SpC 3.17 because it is a pass-through cost. The Hynet FEED study has been added into this condition to direct NGGT to pass funding through to Cadent for Cadent’s Hynet FEED study.
- 6.44 The effect of the amendments is to add the PARCA termination value, to maintain that the transmission owner receives this PARCA termination value when appropriate and to add that Cadent receives funds from NGGT for Cadent’s Hynet FEED study.

<b>SpC 6.2 Gas conveyed to Independent Systems</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 11F
RIIO-1 licence condition name	Gas conveyed to Independent Systems
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.45 The purpose of this condition is to require the licensee to recover the costs of connecting Independent Systems from Gas Shippers and then pay those amounts to Distribution Network Operators and Relevant Shippers, with any difference between amounts recovered and passed through to consumers.
- 6.46 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles.
- 6.47 The effect of the amendments is to improve its clarity.

<b>SpC 6.3 System operator pass-through items</b>	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.48 The purpose of this condition is to calculate the pass-through costs that the system operator is allowed to recover.

6.49 The reason for introducing this condition is because we did not previously have a separate pass through condition for the licensee's system operation functions and this is desirable because of increased transparency regarding the calculation allowances for the system operator.

6.50 The effect of the condition is to establish a separate System Operator allowed pass through term.

### Special Conditions - Chapter 7: Legacy adjustments

<b>SpC 7.8 Close out of the RIIO-GT1 stakeholder satisfaction output</b>	
Type of change	Close out of RIIO-T1 condition
RIIO-1 number	SpC 2C
RIIO-1 licence condition name	Stakeholder Satisfaction Output
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.51 The RIIO-1 condition determines the financial reward and/or penalty in respect of the licensee's performance under the stakeholder satisfaction output incentives.

6.52 The reason for these modifications is to give effect to our decision in SSMD not to continue this incentive in RIIO-2.

6.53 The effect of this condition is to close out the RIIO-1 stakeholder satisfaction output incentives and to reflect the licensee's performance under that incentive during RIIO1.

<b>SpC 7.14 Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management incentive revenue</b>	
Type of change	Close out of RIIO-1 term
RIIO-1 number	SpC 3B
RIIO-1 licence condition name	Entry Capacity and Exit Capacity Constraint Management (Part F)
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.54 The RIIO-1 condition determines the financial upside/downside in relation to Constraint Management incentive revenue.

6.55 The reason for these modifications is to ensure LCMIRt in Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflects the licensee's performance

under the Entry Capacity and Exit Capacity Constraint Management incentive in Regulatory Years 1 April 2019 and 1 April 2020 respectively.

- 6.56 The effect of this condition is to close out the RIIO-1 incentive in respect of Entry Capacity and Exit Capacity Constraint Management, and specifically the incentive revenue term.

<b>SpC 7.15 Close out of the RIIO-GT1 Constraint Management cost adjustment</b>	
Type of change	Close out of RIIO-1 term
RIIO-1 number	SpC 3B
RIIO-1 licence condition name	Entry Capacity and Exit Capacity Constraint Management (Part G)
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.57 The RIIO-1 condition determines the Constraint Management cost adjustment in relation to Constraint Management costs in RIIO-1.
- 6.58 The reason for these modifications is to ensure LCMCA in Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's Entry Capacity and Exit Capacity Constraint Management costs in Regulatory Years 1 April 2019 and 1 April 2020 respectively.
- 6.59 The effect of this condition is to close out the RIIO-1 incentive in respect of Entry Capacity and Exit Capacity Constraint Management, and specifically the cost adjustment term.

<b>SpC 7.16 Close out of the RIIO-GT1 Transportation Support Services adjustment</b>	
Type of change	Close out of RIIO-1 term
RIIO-1 number	SpC 3C
RIIO-1 licence condition name	NTS Transportation Support Services
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.60 The RIIO-1 condition determines the value of the NTS Transportation Support Services allowed revenue.
- 6.61 The reason for these modifications is to ensure LTSS in Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance in respect of the incentive on the licensee's management of NTS Transportation Support Services in Regulatory Years 1 April 2019 and 1 April 2020 respectively.

6.62 The effect of this condition is to close out the adjustment for the difference between the expected and actual revenue from the application of the incentive scheme for NTS Transportation Support Services on the NTS.

### Special Conditions - Chapter 9: General obligations

<b>SpC 9.10 Long term network planning</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 7A
RIIO-1 licence condition name	Long Term Development Statement
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.63 The purpose of this condition is to require NGGT to produce an annual report on its long term network development plan.

6.64 The reason for amending the current licence condition is to give effect to our decision in FDs to add an additional obligation to produce an Annual Network Capability Assessment Report (ANCAR).

6.65 The effect of the amendment is to specify the forecasting and planning information required in the long term network development plan, and to specify the timing and content for the submission of the ANCAR.

<b>SpC 9.11 Transmission Planning Code</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 7B
RIIO-1 licence condition name	Transmission Planning Code
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.66 The purpose of this condition is to require NGGT to produce and review a Transmission Planning Code (TPC).

6.67 The reason for amending the current licence condition is to reflect that this is now an ongoing obligation rather than a new obligation.

6.68 The effect of the amendment is to require NGGT to review its TPC on a two-year basis, and specify how NGGT should report any proposed changes to the TPC to Ofgem.

<b>SpC 9.12 Licensee’s Network Model</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 7C
RIIO-1 licence condition name	Licensee’s Network Model
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.69 The purpose of this condition is to require NGGT to produce and review a Network Model on an ongoing basis.

6.70 The reason for amending the current licence condition is to reflect that this is now an ongoing obligation rather than a new obligation.

6.71 The effect of the amendment is to require NGGT to review its Network Model on a two-year basis, and set out how NGGT must report any proposed changes to the Network Model to Ofgem.

<b>SpC 9.13 Capacity Requests, Baseline Capacity and Capacity Substitution</b>	
Type of change	Amendment to existing licence conditions
RIIO-1 number	SpC 5F / SpC 5G
RIIO-1 licence condition name	Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Entry Points / Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Exit Points
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.72 As detailed under SpC 3.13, the reason for amending the current licence conditions is to separate out the provisions dealing with notification of requests for Firm Entry Capacity and Firm Exit Capacity, Licence Baseline Capacity, Capacity Substitution, and the process for the creation of new Zero Licence Baseline Capacity Points from the Funded Incremental Obligated Capacity Re-opener process to avoid unnecessary duplication in the licence, and to separate out the re-opener & PCD aspects from the non re-opener processes and requirements.

6.73 The effect of the amendments to 5F and 5G as far as they relate to SpC 9.13 is to move the aforementioned provisions into a separate licence condition and establish a process for notifications to the authority ahead of any applications under SpC 3.13, and for approval of Entry Capacity or Exit Capacity Substitution.

The process and requirements for maintaining the tables of Licence Baseline Entry/Exit Capacity, NTS Entry/Exit Points and Zero Licence Baseline Entry/Exit points has been updated to provide additional clarity.

6.74 The modifications also rename this condition.

<b>SpC 9.14 Prohibited procurement activities</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 10D
RIIO-1 licence condition name	Prohibited Procurement Activities
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.75 The purpose of this condition is set out the prohibited procurement activities of the licensee and the conduct of the transmission business.

6.76 The reason for amending the current licence condition is to apply the RIIO-2 licence drafting principles and provide clarity with regards to obligations on NGGT following the sale of Cadent Gas in 2019.

6.77 The effect of the amended condition is to improve its clarity.

<b>SpC 9.15 NTS shortfall contribution obligations</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 11D
RIIO-1 licence condition name	Energy Administration, Energy Supply Company Administration and Smart Meter Communication Licensee Administration: NTS Shortfall Contribution Obligations
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.78 The purpose of this condition is to require the licensee to modify the charges imposed by it to raise such amounts as are specified by the Secretary of State in a Shortfall Direction.

6.79 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles.

6.80 The effect of the amendments is to improve its clarity.

<b>SpC 9.16 Restriction of prices in respect of Tariff Capped Metering Activities</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 11H
RIIO-1 licence condition name	Restriction of prices in respect of Tariff Capped Metering Activities
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.81 The purpose of this condition is to set out the tariff caps on certain metering activities.

6.82 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles.

6.83 The effect of the amended condition is to improve its clarity.

<b>SpC 9.17 Entry Capacity and Exit Capacity obligations and methodology statements</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 9A
RIIO-1 licence condition name	Entry Capacity and Exit Capacity Obligations and Methodology Statements
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.84 The purpose of this condition is to set out obligations on the licensee to maintain, comply with and publish the capacity methodology statements, and set out the process to report on and revise these statements.

6.85 The reason for amending the current licence condition is to provide a clearer governance process for reviewing and revising the capacity methodology statements, including amending the time limit for the Authority to approve/reject proposed revisions to the statements, and outlining what will happen where the Authority takes no action within this time limit, in order to give certainty to the licensee and users of the end-to-end process.

6.86 The effect of the amendments is to ensure the licensee's obligations in maintaining and reviewing the capacity methodology statements are made clearer.

<b>SpC 9.18 Methodology to determine the release of Entry Capacity and Exit Capacity volumes</b>	
Type of change	Amendment to existing licence condition

<b>SpC 9.18 Methodology to determine the release of Entry Capacity and Exit Capacity volumes</b>	
RIIO-1 number	SpC 9B
RIIO-1 licence condition name	Methodology to determine the release of Entry Capacity and Exit Capacity volumes
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.87 The purpose of this condition is to set out obligations on the licensee to release Obligated Entry Capacity and Obligated Exit Capacity, and to maintain, comply with, publish and report on the capacity release methodology statements.
- 6.88 The reason for amending the current licence condition is to move the three parameters of the NPV Test (threshold, discount rate and period over which the NPV Test is calculated) currently outlined in the Entry Capacity Release Methodology Statement into this licence condition. As our decision on UNC667 outlined,<sup>18</sup> these are price control parameters, and should move directly into the licence from the licence governed methodology statement. Amendments have also been made to this condition to provide a clearer indication of the licensee’s obligations around release of capacity, to introduce reporting on Incremental Entry Capacity and Incremental Exit Capacity release requests, and to provide a clearer governance for reviewing and revising the capacity release methodology statements. This includes requiring the licensee to review statements in consultation with interested parties to provide them with a clearer opportunity to discuss potential modifications to these statements. The time limit for the Authority to approve/reject proposed revisions to the release methodology statements has also been changed, as well as what will happen where the Authority takes no action within this time limit, in order to give certainty to the licensee and users of the end-to-end process.
- 6.89 The effect of the amendments is to make the condition and its governance process clearer, whilst allowing Relevant Shippers and Distribution Network Operators to participate in the review process and ensuring capacity release obligations and the price control parameters of the NPV Test are set out in the licence.

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<sup>18</sup> [Decision to reject Uniform Network Code \(UNC\) 667: Inclusion and Amendment of the Entry Incremental Capacity Release Net Present Value test in the Uniform Network Code, page 5.](#)

<b>SpC 9.19 System Management Services</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8A
RIIO-1 licence condition name	System Management Services
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.90 The purpose of this condition is to require the licensee to have in place and maintain a Procurement Guidelines Document, a System Management Principles Statement, a System Management Services Adjustment Methodology and a System Management Services Adjustment Methodology statement.
- 6.91 The reason for amending the current licence condition is to change the wording in current paragraph 8A.9 (RIIO-1), stating the licensee must comply with the System Management Principles Statement, removing the term 'reasonable endeavours'. The System Management Principles Statement itself outlines how the licensee will "seek always to follow" the document's guidelines, and so our licence drafting change is to make the licence obligation more robust. We have also changed the frequency of revising its Procurement Guidelines Document, following workgroup discussions with the licensee, and made minor amendments to the governance process in this condition.
- 6.92 The effect of the amendments is to grant greater flexibility on the licensee in relation to its requirements to procure and use System Management Services, and to ensure the licensee must comply with the System Management Principles Statement.

<b>SpC 9.20 Independent market for balancing</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8B
RIIO-1 licence condition name	Independent market for balancing
Relevant licensees/relevant sectors	GT
Associated document	N/A

- 6.93 The purpose of this condition is to insert additional sub paragraphs at the end of Standard Special Condition A11 (Network Code and Uniform Network Code).
- 6.94 The reason for amending the current licence condition is to clarify that the insertions only apply to NGGT's licence and not all GT and GD licensees to whom SSC A11 applies. A change has also been made to refer to the Financial Conduct

Authority instead of the defunct Financial Services Authority within this condition and its defined terms.

6.95 The effect of the amendments is to improve the clarity of this condition.

<b>SpC 9.21 Provision of information</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8F
RIIO-1 licence condition name	Provision of information
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.96 The purpose of this condition is to set out the licensee’s obligation in respect of the publication of information on its website.

6.97 The reason for amending the current licence condition is to add the definition of Actual NTS Throughput and apply the RIIO2 drafting principles.

6.98 The effect of the amendments is to ensure the licensee’s obligations on publishing information on its website are clearer.

<b>SpC 9.22 Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8I
RIIO-1 licence condition name	Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.99 The purpose of this condition is to set out the licensee’s obligations to have in place and maintain the Demand Side Response Methodology.

6.100 The reason for amending the current licence condition is to remove the obligation on the licensee to develop a Demand Side Response Methodology because this was achieved during RIIO-1. Amendments have also been made to the time limits for the Authority to approve, reject and direct the licensee to undertake a trial of proposed revisions to the Demand Side Response Methodology, and what will happen where the Authority takes no action within these time limits, to give certainty to the licensee and users of the end-to-end process.

6.101 The effect of the amendments is to reflect that this is now an ongoing obligation rather than a new obligation. The parameters under which the licensee can review, revise and undertake a trial of the Demand Side Response Methodology have been amended accordingly.

### **Removed conditions**

<b>SpC 1B Amendments to Standard Special Conditions relating to LNG</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.102 The purpose of this condition is to make changes to the Standard Special Condition insofar as they relate to NGGT for the purposes of the licensee's LNG storage business.

6.103 The reason for removing the condition is that NGGT no longer operates an LNG storage business.

6.104 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 2D Permit Arrangements for the provision of incremental capacity</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.105 The purpose of this condition is to provide arrangements that allow the licensee to obtain revenues from Permit Arrangements from 1 April 2013 – 31 March 2015.

6.106 The reason for removing the condition is that there will be no outstanding permit arrangements by the end of RIIO-T1.

6.107 The effect of this deletion is to tidy up the licence by removing a redundant condition.

<b>SpC 3C NTS Transportation Support Services</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.108 The purpose of this condition is to calculate the value of the NTS Transportation Support Services term.

6.109 The reason for removing the condition is that the incentive associated with this condition only applied from 1 April 2013 until 30 September 2018 and is now expired.

6.110 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 3E Uncertain Event affecting Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues)</b>	
Type of change	Removal of a RIIO-1 condition to transfer to the PCFH
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.111 The purpose of this condition is to set out certain circumstances in which the Authority would review the provisions of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) and Special Condition 3D (NTS System Operator external incentives, costs and revenues) in the RIIO-1 price control period.

6.112 The reason for moving the condition to the PCFH is because once it was revised to give effect to our decisions on gas system operator incentives in FDs, there were no obligations on the licensee to review the provisions of Special Condition 3B and 3D and the remaining text simply outlined when the Authority would consider using its statutory powers. As a result, there was no need for this text to sit in the licence, as descriptions of how the Authority will operate the price control sit more properly in the PCFH.

6.113 Further amendments to the text that now sits in the PCFH have been made to address what constitutes an Uncertain Event, because of the reduced length of the price control and decrease in potential incentive revenue for the licensee.

6.114 The effect of the modifications is to transfer 3E from the SpCs to the PCFH.<sup>19</sup>

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<sup>19</sup> The draft PCFH is located here: GT2 Price Control Financial Handbook.

<b>SpC 6D Arrangements for the recovery of SO uncertain costs</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.115 The purpose of this condition was to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to allowed expenditure in relation to SO Enhanced Security Costs and Agency Costs

6.116 The reason for removing this condition is because under RIIO-2 there is no uncertainty mechanism relating to SO Enhanced Security Cost and the 'agency' services, which Xoserve provided prior to 1 April 2017 was switched off on 1 April 2017 and the re-opener replaced by SSC A15A (Central Data Service Provider)<sup>20</sup> to establish new funding and governance arrangements for the gas central data service provider (Xoserve).

6.117 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SpC 8D: Requirement to undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.118 The purpose of this condition is to set out the obligations of the licensee in respect of the activities set out in the Scheme of Work.

6.119 The reason for removing the condition is because the obligations set out in this condition and the underlying Scheme of Work were fulfilled and completed during the RIIO-1 price control period.

6.120 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 8J: Requirement to undertake greenhouse gas investigation activities</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT

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<sup>20</sup> We are proposing to renumber the remaining condition A15 in this consultation.

**SpC 8J: Requirement to undertake greenhouse gas investigation activities**

Associated document	N/A
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6.121 The purpose of this condition is to set out the obligations of the licensee in respect of the Greenhouse Gas Investigation Activities.

6.122 The reason for removing the condition is that it is no longer valid. This condition related to a one-off obligation on the licensee to undertake greenhouse gas investigation activities and report back to the Authority by 31 January 2016.

6.123 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

**SpC 9C Methodology to determine revenue drivers**

Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.124 The purpose of this condition is to set out the obligations on the licensee to produce a methodology to determine any additional revenue allowances relating to the release of Incremental Obligated Entry or Exit Capacity.

6.125 The reason for removing the condition is because in our SSMD, we decided that a re-opener mechanism was more appropriate than a revenue driver to manage potential costs associated with release of Incremental Obligated Capacity. As a result there are no longer any revenue drivers in the GT price control to which this licence condition would apply.

6.126 The effect of this deletion is to tidy up the licence by removing a redundant condition. It also removes the requirement for the licensee to review the generic entry and exit revenue driver methodology statements.

**SpC 10A Undertaking from ultimate controller concerning non-discrimination between the NTS Transportation Owner Activity and the Distribution Network Transportation Activity**

Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.127 The purpose of this condition is to prevent NGGT gaining an unfair or competitive advantage as a result of holding licences for both NTS and GDN businesses.

6.128 The reason for removing the condition is that NGGT sold its remaining interests in its GDN business in July 2019. Risks in relation to unfair or competitive advantage in general are already provided for by SSCs A6 and A33 – A35.

6.129 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 10B Separation of NTS and Distribution Network Businesses</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.130 The purpose of this condition is to ensure that NGGT has appropriate managerial and operational arrangements in place in order to operate its NTS and GDN businesses independently. Those arrangements were required to prevent NGGT from gaining an unfair or competitive advantage as a result of holding licences for both NTS and GDN businesses.

6.131 The reason for removing the condition is that NGGT sold its remaining interests in its GDN business in July 2019. Risks in relation to unfair or competitive advantage in general are already provided for by SSCs A6 and A33 – A35.

6.132 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 10C Appointment and duties of the business separation compliance officer</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.133 The purpose of this condition is to ensure that NGGT appoints a compliance officer to implement, oversee and report on compliance with SpC 10A and SpC 10B.

6.134 The reason for removing the condition is that we are proposing deleting SpC 10A and SpC 10B. The general obligation to have a compliance officer is already provided for by SSC A34.

6.135 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 11E Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.136 The purpose of this condition is to set out the charges for the supply of LNG storage services.

6.137 The reason for removing the condition is that NGGT no longer runs a LNG storage business.

The effect of removing the condition is to tidy up the licence by removing a redundant condition.

<b>SpC 11G Application of Special Condition 11H</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	N/A

6.138 The purpose of this condition is to enable the Authority to issue a direction to the licensee specifying that Special Condition 9.17 (Restriction of prices in respect of Tariff Capped Metering Activities) shall be in effect from the date the Authority consents to the transfer of NGGT's gas transporter licence in respect of its distribution networks.

6.139 The reason for removing the condition is that a direction has now been made.

6.140 The effect of removing the condition is to tidy up the licence by removing a redundant condition.

## 7. Proposed Changes to the Gas Distribution Licence Conditions

### Section summary

This chapter explains the changes to the GD licence conditions, why we are making those changes and their effect.

### Reason and effect for proposed Gas Distribution Licence Conditions

#### Standard Special Conditions - Part D

<b>SSC D5: Licensee's procurement and use of constraint management services</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	All GDNs
Associated document	N/A

- 7.1 The purpose of this condition is to require the GDNs to report to Ofgem every year on their procurement of constraint management services.
- 7.2 The reason for removing the condition is because the figures reported have generally been zero and we no longer consider it a useful exercise.
- 7.3 The effect of this change is to remove an obligation on the licensees that is of no benefit to consumers.

<b>SSC D10: Quality of Service Standards</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SSC D10
RIIO-1 licence condition name	Quality of Service Standards
Relevant licensees	All GDNs
Associated document	Guaranteed Standards of Performance (GSOP) Guidance

- 7.4 The current condition sets quality of service standards for the following services delivered by the licensee: connections to the pipeline system, the Emergency Services and Enquiry Service and attendance at gas emergencies including gas escapes.
- 7.5 The reason for the change in relation to attendance at gas emergencies is to implement the decision made at SSMD to clarify the behaviour we expect from the licensee with respect to meeting the target of attending gas escapes. In Final Determinations, we decided to extend the Guaranteed Standards of Performance (GSOPs) to disconnections and diversions quotations, to ensure customers requesting these services are covered by the GSOP standards.
- 7.6 The effects of the modifications are to require that persons attending gas escapes have completed sufficient training to be able to competently and appropriately deal with these situations, and to require that the licensee can demonstrate that the persons attending are able to competently and appropriately deal with these situations.
- 7.7 The effects of the modifications in relation to connections will place new obligations on licensees to deliver a percentage of quotations within timescales specified in the licence, and aligned to the GSOP aggregation on providing quotations to customers requesting disconnections or diversions work types.

<b>SSC D12: Requirement to offer terms for the provision of gas entry points</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SSC D12
RIIO-1 licence condition name	Requirement to offer terms for the provision of gas entry points
Relevant licensees	All GDNs
Associated document	N/A

- 7.8 The current condition sets out the obligations on the licensee relating to gas entry agreements in respect of gas entry points to the pipe-line.
- 7.9 In our September informal licence drafting consultation we proposed making substantive changes to this condition. In our FDs, we decided not to make this policy change, but having already updated the condition in accordance with our RIIO-2 drafting principles we are proposing to make these drafting changes anyway.

7.10 The effect of the proposed amendments is to improve this condition's clarity.

<b>SSC D21: Treating Domestic Customers Fairly</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Fair Treatment Guidance Document

7.11 The reason for introducing this condition is to implement our decision in the SSMD to have a new principles-based condition is to ensure that the GDNs treat domestic customers fairly.

7.12 The effect of this new condition is to:

- Place a greater onus on the GDNs to treat their domestic customers fairly and develop approaches that deliver positive outcomes for such customers.
- Place an obligation on the GDNs to seek to identify domestic customers in vulnerable situations in an appropriate and effective manner during interactions with such customers.
- Require GDNs to respond to these domestic customers in a way that takes into account their vulnerability.

7.13 This condition will have an associated guidance document to help the GDNs, and other stakeholders, better understand their obligations. We intend to engage with the GDNs and other stakeholders on the drafting of this guidance document in early 2021.

<b>SSC D22: Modifications to Standard Conditions</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.14 The reason for introducing this condition is to give effect to our Final Determinations decision to give GDNs greater discretion over investigating and seeking to recover the value of suspected gas theft.

7.15 The effect of this condition is to modify the application of the relevant standard condition that sets out duties in relation to gas theft and applies to GT and GD, so as to require GDNs to take all reasonable cost-effective steps to resolve suspected

gas theft and seek to recover the value of stolen gas when it is likely to exceed the costs of recovery.

### **Special Conditions – Chapter 3: Adjustments to Totex Allowances**

<b>SpC 3.10 Tier 1 Mains decommissioned Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.16 The reason for introducing this new condition is to give effect to our Final Determinations decision to establish a PCD for the delivery of Tier 1 mains decommissioning.

7.17 The effect of this new condition is to specify the outputs, delivery date and allowances for the PCD, and the formula that will be used to calculate an end of period adjustment to reflect the actual workload delivered.

7.18 The condition also requires licensees to submit an explanatory report should the value of the workload delivered fall below the value specified.

<b>SpC 3.11 Tier 1 Services Repex Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.19 The reason for introducing this new condition is to give effect to our Final Determinations decision to establish a PCD for the delivery of Tier 1 services interventions.

7.20 The effect of this new condition is to specify the outputs, delivery date and allowances for the PCD, and the formula that will be used to calculate an end of period adjustment to reflect the actual workload delivered.

7.21 The condition also requires licensees to submit an explanatory report should the value of the workload delivered fall below the value specified.

<b>SpC 3.12 Capital projects Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.22 The reason for introducing this new condition is to give effect to our Final Determinations decision to establish a PCD for a predefined group of named capital projects.

7.23 The effect of this new condition is to specify the outputs, delivery dates and allowances for the PCD and provide for the assessment of the PCD.

<b>SpC 3.13 Commercial fleet Price Control Deliverable</b>	
Type of change	New special licence condition
Relevant licensees	All GDNs
Associated document	N/A

7.24 The reason for introducing this condition is to give effect to our Final Determination decision to establish a PCD to enable GDNs to convert their commercial vehicle fleets to zero emissions vehicles.

7.25 The effect of this licence condition is to specify the outputs, delivery date and allowances for the PCD, and the formula that will be used to calculate an end of period adjustment to reflect the actual workload delivered.

<b>SpC 3.14 Fuel Poor Network Extension Scheme volume driver</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	FPNES Governance Document

7.26 The reason for introducing this new condition is to give effect to our Final Determinations decision to implement the Fuel Poor Network Extension Scheme (FPNES) as a capped volume driver, and to set targets as part of a reputational ODI to make GDNs accountable for their performance.

7.27 The effect of the condition is to set the GDNs' targets for the FPNES and provide the mechanism for adjusting allowances in line with each licensee's output. The licence condition also sets out the procedure for stopping the scheme in the event of any changes to government policy and establishes the FPNES Governance Document.

<b>SpC 3.15 Domestic Connections volume driver</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.28 The purpose of this new licence condition is to give effect to our Final Determinations decision to have a volume driver for domestic connections.

7.29 The effect of this condition is to establish a volume driver that enables the adjustment of the licensee's allowed expenditure for domestic connections, according to ex-ante unit rates, where the number of connections delivered is different from that used to set ex-ante allowances.

<b>SpC 3.16 Tier 2A mains and services replacement expenditure volume driver</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 3E
RIIO-1 licence condition name	Mains and Services Replacement Expenditure
Relevant licensees	All GDNs
Associated document	N/A

7.30 The current licence condition is a revenue driver for the licensees' work related to their Tier 2A mains replacement as part of the Iron Mains Replacement Programme.

7.31 One reason for the changes to the current licence is to simplify the structure of the condition. Changes have also been included to ensure that there is clarity surrounding the units associated with each diameter band that falls within scope of this condition.

7.32 The effects of the modifications are to enable the continued funding for Tier 2A work over RIIO-GD2 and to improve the clarity of the licence condition.

<b>SpC 3.17 HSE Repex policy Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

- 7.33 The purpose of this new licence condition is to give effect to our Final Determinations decision to establish a re-opener to allow for changes to repex related HSE policy areas including specified repex related legislation, which affect the volume of repex work and the approach that GDNs take to any policy changes.
- 7.34 The effect of the new condition is to establish a re-opener for the licensee or Authority to trigger and adjust the REPT allowances term and values in SpC 3.1, 3.10 and 3.11 as a result of changes to repex related HSE policy areas.

<b>SpC 3.18 Tier 1 Stubs Repex policy Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

- 7.35 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener to allow for the recovery of uncertain costs associated with Tier 1 stubs. The HSE are currently undertaking a review of the risk posed by Tier 1 stubs. The outcome of this review may affect the scope, timing and costs associated with addressing Tier 1 stubs.
- 7.36 The effect of the new condition is to provide licensees with the opportunity to apply for an adjustment to their allowed expenditure, taking into account any outcomes of the HSE review which may result in changes to the costs of carrying out its licenced activities.

<b>SpC 3.19 Heat policy and energy efficiency Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

- 7.37 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener in relation to changes to heat policy areas that affect the licensee's legal obligations.
- 7.38 The effect of the new condition is to establish a re-opener that can be triggered by the licensee or the Authority in the event of changes to heat policy areas including gas quality, connection charging arrangements and obligations on the licensee to promote energy efficiency amongst gas consumers.

<b>SpC 3.20 Diversions and Loss of Development Claims policy Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

7.39 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener to allow for the recovery of uncertain costs relating to Diversions and Loss of Development Claims.

7.40 The effect of the new condition is to establish a re-opener that will allow for the recovery of uncertain costs relating to pipeline diversion not recoverable from third parties, the settlement of loss of land development claims and costs relating to diverting or securing pipelines as a result of extreme weather events.

<b>SpC 3.21 Multiple Occupancy Buildings safety Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

7.41 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener to allow for the recovery of uncertain costs relating to the regulation of safety in Multiple Occupancy Buildings (MOBs).

7.42 The effect of the new condition is to establish a re-opener that will apply where there have been new safety standards for MOBs that the Ministry of Housing, Communities & Local Government (MHCLG), HSE or other relevant regulators or devolved governments may require in response to the Hackitt Review.<sup>21</sup> The re-opener can also provide additional funding for safety related maintenance, repairs and riser surveys in medium rise MOBs.

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<sup>21</sup> <https://www.gov.uk/government/collections/independent-review-of-building-regulations-and-fire-safety-hackitt-review>

<b>SpC 3.22 New Large Load Connections Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

7.43 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener relating to New Large Load Connections.

7.44 The effect of the new condition is to establish a re-opener that will allow for the recovery of uncertain costs relating to New Large Load Connections to the network that trigger specific reinforcement costs that cannot be recovered through the connection charge.

<b>SpC 3.23 Smart Metering Roll-out Costs Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

7.45 The purpose of this new licence condition is to establish a re-opener to allow for the recovery of uncertain costs relating to the smart meter roll-out programme, as decided in Final Determinations.

7.46 The effect of the new condition is to provide licensees with the opportunity to apply for an adjustment to their allowed expenditure where there are additional costs incurred as a direct result of the smart meter roll-out programme.

<b>SpC 3.24 Specified Streetworks Costs Re-opener</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	Re-opener Guidance and Application Requirements Document

7.47 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish a re-opener relating to streetworks.

7.48 The effect of the new condition is to establish a re-opener where there are additional streetworks costs as a result of complying with new permit and lane rental schemes, or new requirements relating to streetworks.

<b>SpC 3.25 Gas Holder demolitions Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	NGN and WWU
Associated document	N/A

7.49 The purpose of this new condition is to implement our decision in SSMD to establish a PCD for gas holder demolitions.

7.50 The effect of this new condition is to ensure that any under-delivery of the licensee’s Gas Holder Demolition programme results in a recovery of allowances from the licensee.

<b>SpC 3.26 Personalising welfare facilities Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	Cadent
Associated document	N/A

7.51 The purpose of this new condition is to implement our decision in Final Determinations to establish a PCD for Cadent to provide additional personalised welfare facilities to consumers in vulnerable situations in the event of a supply interruption.

7.52 The effect of this new condition is to specify the output, delivery date and allowances for the PCD and provide for the assessment of the PCD.

<b>SpC 3.27 London Medium Pressure Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	Cadent
Associated document	N/A

7.53 The purpose of this new licence condition is to give effect to our Final Determinations decision to establish a PCD for Cadent relating to the London Medium Pressure project.

7.54 The effect of this new condition is to specify the outputs, delivery dates and allowances for the PCD and provide for the assessment of the PCD.

<b>SpC 3.28 Intermediate pressure reconfigurations Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	SGN
Associated document	N/A

7.55 The reason for introducing this new condition is to give effect to our Final Determinations decision that SGN should have a PCD for the installation of small pressure reducing installations and Service Governors.

7.56 The effect of the condition is to specify the outputs, delivery dates and allowances for the PCD and to specify the formula to calculate the recovery of associated allowances for any non-delivery of PCD outputs.

<b>SpC 3.29 Remote pressure management Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	SGN
Associated document	N/A

7.57 The reason for introducing this new condition is to give effect to our Final Determinations decision that SGN should have a PCD for the installation of remote pressure management on district governors in the Southern networks.

7.58 The effect of this new condition is to specify the outputs, allowances and delivery date for the PCD, and the formula that will be used to calculate the recovery of associated allowances for any non-delivery of PCD outputs. This condition also places reporting requirements on the licensee in relation to trial of remote pressure management equipment.

<b>SpC 3.30 Biomethane improved access rollout Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	SGN
Associated document	N/A

7.59 The reason for introducing this new condition is to give effect to our Final Determinations decision that SGN should have a PCD for the rollout of three technologies that support the rollout of biomethane in Scottish and Southern networks, and disseminate knowledge from this rollout.

7.60 The effect of this new condition is to specify the outputs, allowances and delivery date for the PCD, and the formula that will be used to calculate the recovery of associated allowances for any non-delivery of PCD outputs. The effect of the condition is also to require the dissemination of knowledge and compliance with the Data Best Practice Guidance.

<b>SpC 3.31 Gas escape reduction Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	SGN
Associated document	N/A

7.61 The purpose of this new licence condition is to give effect to to our Final Determinations decision that SGN should have a PCD for the acquisition of High Volume Gas Escape Toolkits and Stent Bags to help reduce the volume of gas lost during escapes.

7.62 The effect of this condition is to specify the outputs, allowances and delivery date for the PCD, and provide for the assessment of the PCD.

#### **Special Conditions – Chapter 4: Output Delivery Incentives**

<b>SpC 4.1 Total output delivery incentive performance</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.63 The reason for introducing this condition is to calculate the output delivery incentives term, which in turn feeds into the calculation of calculated revenues.

7.64 The effect of the condition is to calculate the total of several output delivery incentive terms.

<b>SpC 4.2 Customer Satisfaction Survey output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1E
RIIO-1 licence condition name	Incentive adjustment in respect of the Broad Measure of Customer Satisfaction
Relevant licensees	All GDNs
Associated document	N/A

7.65 The current condition calculates the financial reward or penalty received in relation to the RIIO-GD1 Broad Measure of Customer Satisfaction (BMCS), which relates to the Stakeholder Engagement Incentive, Customer Satisfaction Surveys and Customer Complaints.

7.66 The reason for amending this condition is to give effect to our Final Determinations decision to split the BMCS in two and retain the customer satisfaction survey as an independent financial output delivery incentive subject to certain modifications.

7.67 The effect of these modifications is to separate out the customer satisfaction survey ODI, rename and renumber the current condition and replace the current wording so as to:

- amend the structure.
- update the target, maximum reward and maximum penalty scores for the Customer Satisfaction Survey.
- introduce a deadband into the calculation of financial reward received.

<b>SpC 4.3 Complaints metric output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1E
RIIO-1 licence condition name	Incentive adjustment in respect of the Broad Measure of Customer Satisfaction
Relevant licensees	All GDNs
Associated document	N/A

7.68 The current condition calculates the financial reward received in relation to the RIIO-GD1 Broad Measure of Customer Satisfaction, which relates to the Stakeholder Engagement Incentive, Customer Satisfaction Surveys and Customer Complaints.

7.69 The reason for amending this condition is to give effect to our Final Determinations decision to split the BMCS in two and retain the complaints metric as an independent financial output delivery incentive subject to certain modifications.

7.70 The effect of these modifications is to separate out the complaints metric ODI, rename and renumber the current condition and replace the current wording so as

to amend the structure and update the target and maximum penalty scores for the Complaints Metric.

<b>SpC 4.4 Shrinkage Management output delivery incentive</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1F
RIIO-1 licence condition name	Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions
Relevant licensees	All GDNs
Associated document	N/A

- 7.71 The current condition calculates the financial reward received in relation to the RIIO-GD1 Shrinkage and Environmental Emissions incentives, sets out the obligations for GDNs to maintain a Shrinkage & Leakage Model, and requires them to submit a regular Smart Metering Data report.
- 7.72 The reason for amending the current licence condition is to give effect to our decision in the SSMD to introduce a new financial ODI as part of the overall approach to shrinkage in RIIO-GD2.
- 7.73 The effect of the modifications is to provide a formula for the calculation of the reward or penalty attributable to a GDN for its performance in shrinkage management by multiplying the impact in GWh by the sum of the price of gas plus the cost of carbon emitted.
- 7.74 The formula for calculating the gas price reference cost in Part B of this condition has been amended with the aim of expressing it in a simpler way. This is not intended to change the way that the cost is calculated.
- 7.75 We have removed the requirement to submit a regular Smart Metering Report, as we do not think that continuing with this would provide any further value.
- 7.76 We have also made some clarifying amendments to the paragraphs relating to the maintenance and revision of the Shrinkage & Leakage Model.

<b>SpC 4.5 Unplanned Interruption Mean Duration output delivery incentive</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

- 7.77 The reason for introducing this new condition is to ensure that the average time taken by GDNs to restore gas supplies to customers following an unplanned interruption does not exceed the minimum acceptable standard, as set out in the SSMD.
- 7.78 The effect of the new condition is to provide the means of calculating the penalty that will apply to a GDN that breaches its mean duration target.
- 7.79 The condition also requires GDNs to submit an explanatory report if they breach the Excessive Deterioration level, as set out in the SSMD.
- 7.80 An alternative form of this condition will apply to Cadent. It will use a different penalty calculation, which will measure performance in multiple occupancy building (MOB) interruptions and non-MOB interruptions separately.

<b>SpC 4.6 Collaborative streetworks output delivery incentive</b>	
Type of change	New condition
Relevant licensees	Cadent and SGN (Southern)
Associated document	N/A

- 7.81 The reason for introducing this new licence condition is to give effect to our Final Determinations decision to establish an incentive to facilitate collaboration between utilities to reduce disruption associated with streetworks by aligning works for multiple parties within one project.
- 7.82 The effect of this condition is to specify the criteria which a collaborative streetworks project must meet to be eligible for a reward, and to provide the means of calculating the reward that will apply to a GDN that completes an eligible project.
- 7.83 The condition also requires GDNs to share knowledge gained through collaborative streetworks projects by maintaining a central information source on the ENA's Smarter Networks Portal.

<b>SpC 4.7 Consumer value proposition</b>	
Type of change	New special licence condition <sup>22</sup>
Relevant licensees	Cadent
Associated document	N/A

7.84 The reason for introducing this condition is to deliver our decisions in SSMD and Final Determinations in relation to consumer value propositions.

The effect of the condition is to:

- specify CVP outputs and rewards.
- introduce a reporting requirement for the licensee regarding delivery of its CVP.
- enable the recovery of CVP rewards where the licensee fails to deliver the relevant outputs.

### **Special Conditions – Chapter 5: Other revenue allowances**

<b>SpC 5.1 Total other revenue allowances</b>	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Associated document	N/A

7.85 The reason for introducing this condition is to calculate the other revenue allowances term, which in turn feeds into the calculation of calculated revenues.

7.86 The effect of the condition is to calculate the total of several other revenue terms.

<b>SpC 5.4 Vulnerability and carbon monoxide allowance</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	VCMA Governance Document

7.87 The reason for introducing this condition is to give effect to our decision in SSMD to create a new use-it or lose-it allowance for projects assisting customers in vulnerable situations, or for raising awareness of the dangers of carbon monoxide.

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<sup>22</sup> This is condition 3.45 in the ET SpCs; 3.24 in the GD SpCs. Based on our proposals in DDs this condition has not been included in the GT SpCs.

7.88 The effect of this condition is to calculate the allowed maximum expenditure for each of the licensees and the mechanism for adjusting allowances should any company not fully use its allowance. The condition also establishes an Associated Document: the VCMA Governance Document.

### **Special Conditions – Chapter 6: Pass-through expenditure**

<b>SpC 6.1 Pass-through items</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1C
RIIO-1 licence condition name	Distribution Network allowed pass-through items
Relevant licensees	All GDNs
Associated document	N/A

7.89 The purpose of this condition is to calculate the pass through costs that the licensee is allowed to recover from customers.

7.90 The reason for amending the condition is to reflect the policy set out in our SSMD and Final Determinations:

7.91 To provide a new pass-through term for costs incurred by the licensee in meeting its obligations under (newly renumbered) Special Condition A15 (Central Data Services Provider).

7.92 To ensure that the licensee has attempted to recover any charges related to Third Party Damage and Water Ingress through culpable parties, or relevant insurance policies prior to requesting use of the pass-through.

- to provide a new pass-through term for costs incurred in relation to shrinkage, which were previously included within the RIIO-GD1 Shrinkage Incentive term.
- to provide a new pass-through term for costs incurred by the licensee in relation to exit capacity flat and flex bookings, which were previously included within the RIIO-GD1 Exit Capacity Cost Adjustment term.
- to reflect changes to the pass through items as set out in the cross sector chapter above.
- In introduce a new pass-through term for Scotland Gas Networks plc to recover capacity booking costs associated with the Stranraer local distribution zone.

- Within SpC 1.1. we have also amended the current definition of “Distribution Network Pension Deficit Charge” to refer to the clearer definition within the GD RIGs.

7.93 The effect of these changes is to allow licensees to pass-through these costs to consumers, subject to using reasonable endeavours to recover Third Party Damage and Water Ingress costs and to improve the clarity of the licence.

## Special Conditions – Chapter 7: Legacy Adjustments

<b>SpC 7.8 Close out of the RIIO-GD1 Discretionary Reward Scheme</b>	
Type of change	Close out of RIIO-1 condition
RIIO-1 number	SpC 1G
RIIO-1 licence condition name	Discretionary Reward Scheme revenue amounts
Relevant licensees	All GDNs
Associated document	N/A

7.94 The current condition calculates the financial reward received in relation to the RIIO-GD1 Discretionary Reward Scheme incentive.

7.95 The reason for these modifications is because we decided to remove this incentive in the SSMD.

7.96 The effect is to close out this incentive with any final payments to be made in the regulatory years 2021/22 and 2022/2023.

<b>SpC 7.9 Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive</b>	
Type of change	Close out of RIIO-1 condition
RIIO-1 number	SpC 1E
RIIO-1 licence condition name	Incentive adjustment in respect of the Broad Measure of Customer Satisfaction
Relevant licensees	All GDNs
Associated document	Stakeholder Engagement Incentive Guidance

7.97 The current condition calculates the financial reward received in relation to the RIIO-GD1 Broad Measure of Customer Satisfaction, which relates to the Stakeholder Engagement Incentive, customer satisfaction surveys and customer complaints.

7.98 The reason for these modifications is because we decided to remove the Broad Measure of Customer Satisfaction and the Stakeholder Engagement Incentive in the SSMD. Our approach for the licence conditions relating to the customer satisfaction surveys and the complaints metric incentives are set out earlier in this chapter.

7.99 The effect of the amended condition is to close out the RIIO-GD1 Broad Measure of Customer Satisfaction with any final payments to be made in the regulatory years 2021/22 and 2022/2023. The condition also provides for amendments to be made to the Stakeholder Engagement Incentive Guidance.

<b>SpC 7.10 Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.100 The current licence condition sets out the procedure to determine the RIIO-GD1 incentive reward or penalty for under- or over-delivery of the RIIO-GD1 Leakage targets

7.101 The reason for these modifications is to implement the decision in SSMD to introduce a different financial incentive in RIIO-GD2.

7.102 The effect of this condition is to close out this incentive with any final payment or penalty in regulatory years 2021/22 and 2022/2023.

<b>SpC 7.11 Close out of the RIIO-GD1 Environmental Emissions Incentive</b>	
Type of change	New condition
Relevant licensees	All GDNs
Associated document	N/A

7.103 The current licence condition sets out the procedure to determine the RIIO-GD1 incentive reward or penalty for under- or over-delivery of the RIIO-GD1 Leakage targets

7.104 The reason for these modifications is to implement the decision in SSMD to introduce a different financial incentive in RIIO-GD2.

7.105 The effect of this condition is to close out this incentive with any final payment or penalty in regulatory years 2021/22 and 2022/2023.

<b>SpC 7.12 Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive</b>	
Type of change	Close out of RIIO-1 condition
RIIO-1 number	SpC 4J
RIIO-1 licence condition name	Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism
Relevant licensees	All GDNs
Associated document	N/A

7.106 The current licence condition sets out the procedure to determine the RIIO-GD1 incentive reward or penalty for under- or over-delivery of the RIIO-GD1 Fuel Poor Network Extension Scheme connection targets.

7.107 The reason for these modifications is to implement the decision in the SSMD to remove this incentive in RIIO-GD2.

7.108 The effect of the changes is to close out this incentive with any final payment or penalty in regulatory year 2021/2022 and to bring the consultation process in line with the rest of the licence. The condition also includes a requirement on the licensee to report on their RIIO-GD1 FPNES connection targets.

<b>SpC 7.13 Close out of the RIIO-GD1 Exit Capacity Cost Adjustment</b>	
Type of change	Close out of RIIO-1 condition
RIIO-1 number	SpC 1D
RIIO-1 licence condition name	NTS Exit Capacity Cost Adjustment
Relevant licensees	All GDNs
Associated document	N/A

7.109 The current licence condition calculates the cost adjustment to be made in relation to the RIIO-GD1 Exit Capacity incentive and to ensure that the licensee's revenue for the relevant Distribution Network reflects the costs incurred with respect to NTS Exit Capacity.

7.110 The reason for these modifications is because we have decided not to continue with the RIIO-GD1 Exit Capacity incentive in FDs, and to include the exit capacity-related pass-through costs within the pass through items instead.

7.111 The effect of this condition is to close out the RIIO-GD1 Exit Capacity Cost Adjustment with any final payments to be made in regulatory years 2021/22 and 2022/2023.

**Special Conditions – Chapter 9: General Obligations**

<b>SpC 9.10 Restriction of prices in respect of Tariff Capped Metering Activities</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 4D
RIIO-1 licence condition name	Restriction of prices in respect of Tariff Capped Metering Activities
Relevant licensees	All GDNs
Associated document	N/A

7.112 The purpose of this condition is to set out the tariff caps on certain metering activities.

7.113 The reason for amending the current licence condition is to reflect changes to the finance conditions and to apply the RIIO-2 licence drafting principles.

7.114 The effect of the amended condition is to improve its clarity.

<b>SpC 9.11 Gas conveyed to Independent Systems</b>	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 4I
RIIO-1 licence condition name	Gas conveyed to Independent Systems
Relevant licensees	SGN Scotland and WWU
Associated document	N/A

7.115 The purpose of this condition is to provide for the continuation of the cross-subsidy arrangements applying to Independent Systems.

7.116 The effect of amending the current licence condition is to give it effect in RIIO-GD2, and to improve the clarity of the condition.

<b>SpC 9.12 Hynet Front End Engineering Design Price Control Deliverable</b>	
Type of change	New condition
Relevant licensees	Cadent
Associated document	N/A

7.117 The purpose of this new licence condition is to place obligations on the licensee in relation to funding provided via a pass through item in the GT SpCs for a Front End Engineering Design (FEED) study for an 85km hydrogen pipeline.

7.118 The effect of this condition is to specify the outputs and delivery dates for the PCD, which includes a close down report, and to provide for the assessment of the PCD including a requirement on the licensee to return any funds directed to the NTS Operator.

### Removal of RIIO-1 Special Conditions

<b>SpC 4E: Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	Cadent
Associated document	N/A

7.119 The purpose of this condition is to prevent Cadent obtaining an unfair or competitive advantage as a result of its relationship with National Grid Gas Transmission (NGGT).

7.120 The reason for removing the condition is that NGGT sold all of its remaining interests in Cadent in July 2019. Risks in relation to unfair or competitive advantage in general are already provided for by SSCs A6 and A33 – A35.

7.121 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SpC 4F: Separation of NTS and Distribution Network Businesses</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	Cadent
Associated document	N/A

7.122 The purpose of this condition is to ensure Cadent has appropriate managerial and operational arrangements in place to operate independently of NGGT, in order to prevent it from obtaining an unfair or competitive advantage as a result of its relationship with NGGT.

7.123 The reason for removing the condition is that NGGT sold all of its remaining interests in Cadent in July 2019. Risks in relation to unfair or competitive advantage in general are already provided for by SSCs A6 and A33 – A35.

7.124 The effect of this change is to tidy up the licence by removing a redundant condition.

**SpC Chapter 5: Schedules (All GDNs) / Provision and Return of Meters (Cadent only)**

Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	Schedule A - All GDNs SpC 5A and 5B - Cadent
Associated document	N/A

7.125 For all the GDNs, this chapter includes Schedule A, which is not used. Cadent's licence also contains SpC 5A and 5B, neither of which are in use.

7.126 The reason for removing these conditions is that none of the conditions are being used in the current licence.

7.127 The effect of this change is to tidy up the licence by removing a redundant condition.

## 8. Proposed Changes to the Electricity System Operator Licence Conditions

### Section summary

This chapter explains the changes to the ESO licence conditions, why we are making those changes and their effect.

## Reason and effect for proposed Electricity System Operator Licence Conditions

### Special Conditions - Chapter 1: Interpretations and definitions

<b>SpC 1.2 Modification of Standard Conditions</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 1C
RIIO-1 licence condition name	Amended standard conditions
Associated document	N/A

- 8.1 The purpose of this condition is to remove reference to Special Condition 1C as having the effect of amending the Standard Licence Conditions.
- 8.2 The reason for amending this condition is to clarify that the definition provided in Special Condition 1C only applies in relation to the relevant licensee, and does not have the effect of amending the Standard Licence Conditions in so far as they apply to all licensees.
- 8.3 The effect of the amended condition is to improve the clarity of this condition.

## Special Conditions - Chapter 2: General Obligations

<b>SpC 2.1 EMR Arrangements</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4L
RIIO-1 licence condition name	Financial Incentives on EMR
Associated document	N/A

8.4 The current condition sets out the incentives on the EMR Delivery Body.

8.5 The reason for amending this condition is to integrate parts of the EMR framework within the overall ESO framework from April 2021. The ESO's EMR performance will be incentivised through the wider ESO RIIO-2 incentives scheme that we propose to provide under Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements).

8.6 The effect of this change is to remove the standalone EMR incentives on the licensee.

<b>SpC 2.2 Black Start Strategy &amp; Procurement Methodology</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4G
RIIO-1 licence condition name	Black Start Allowed Revenue
Associated document	N/A

8.7 The purpose of this condition is to establish arrangements to determine the allowed revenue derived from Black Start, including a cost efficiency check.

8.8 The reason for amending the current licence condition is to remove the disallowance mechanism for Black Start costs but retain the other aspects of this process, including the requirement to produce a Black Start strategy and methodology. The ESO's performance on system restoration policy will be considered through the incentives scheme, with Black Start costs included in an overall balancing costs metric. The ESO's adherence to the Black Start

methodology, and the quality of its strategy, will be considered as part of the incentives process.

- 8.9 The effect of these modifications is to ensure that it is consistent with the RIIO-2 funding package and Black Start arrangements under the RIIO-2 incentives scheme as set out in Final Determinations.

<b>SpC 2.3 Business Separation requirements and compliance obligations</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 20
RIIO-1 licence condition name	Business Separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions
Associated document	N/A

- 8.10 The current condition sets out the definitions of business separation requirements for the legally separate ESO entity.

- 8.11 The reason for amending the current licence condition is to amend the structure of the condition for consistency with the licence drafting principles for RIIO-2.

- 8.12 The effect of this change is to improve the clarity of the licence.

<b>SpC 2.4 Electricity Market Reform</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2N
RIIO-1 licence condition name	Electricity Market Reform
Associated document	N/A

- 8.13 This condition sets out the licensee’s obligations in relation to its conduct in performing the Electricity Market Reform (EMR) Functions.

- 8.14 The reason for amending the current licence condition is to amend the structure of the condition for consistency with the licence drafting principles for RIIO-2.

- 8.15 The effect of the changes is to improve the clarity of the licence.

<b>SpC 2.5 Network Access Policy</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2J
RIIO-1 licence condition name	Network Access Policy
Associated document	N/A

8.16 The purpose of this condition is to set a requirement on the licensee to assist the Transmission Owners (TOs) in producing the Network Access Policy (NAP) to ensure an economic, efficient and coordinated system.

8.17 The reason for amending the current licence condition is that the decision has been made to consolidate the NAP and so now there is only one GB NAP. Therefore, the term “respective” has been removed.

8.18 The effect of this amended condition is that the condition will now accurately reflect the single GB NAP.

<b>SpC 2.6 Prohibited Activities and Conduct of the Transmission Business</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2C
RIIO-1 licence condition name	Prohibited Activities and Conduct of the Transmission Business
Associated document	N/A

8.19 This condition sets out the prohibited activities on the licensee and any subsidiary of the licensee to hold a Transmission Licence that has Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

8.20 The reason for amending the current licence condition is to amend the structure of the condition for consistency with the licence drafting principles for RIIO-2.

8.21 The effect of the changes is to improve the clarity of the licence.

<b>SpC 2.7 Prohibition on engaging in preferential or discriminatory behaviour</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2G
RIIO-1 licence condition name	Prohibition on engaging in preferential or discriminatory behaviour
Associated document	N/A

8.22 This condition prevents the licensee's from unduly discriminating between transmission licensees.

8.23 The reason for amending the current licence condition is to amend the structure of the condition for consistency with the licence drafting principles for RIIO-2.

8.24 The effect of the changes is to improve the clarity of the licence.

<b>SpC 2.8 Allowances in respect of a Security Period</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 3K
RIIO-1 licence condition name	Allowances in respect of a Security Period
Associated document	N/A

8.25 This condition sets out the process for the licensee to recover Allowed Security Costs in the event of a Security Period.

8.26 The reason for amending the current licence condition is to amend the structure of the condition for consistency with the licence drafting principles for RIIO-2.

8.27 The effect of the changes is to improve the clarity of the licence.

<b>SpC 2.13 SO-TO Optimisation Guidance</b>	
Type of change	New licence condition
Relevant licensees	ESO
Associated document	SO-TO Optimisation Governance

8.28 The reason for introducing this condition is to set out the requirement for the licensee to act consistently with the SO-TO Optimisation Guidance.

8.29 The effect of the changes is to ensure that the ESO complies with the SO-TO Optimisation Guidance which sets out the ESO’s reporting and assurance procedures for the Transmission Owners’ SO-TO ODI.

<b>SpC 2.14 Remuneration and Expenses Policy</b>	
Type of change	New licence condition
Relevant licensees	ESO
Associated document	N/A

8.30 The reason for introducing this condition is to ensure the licensee has in place and complies with a Remuneration Policy and Expenses Policy, as defined in the licence.

8.31 The effect of the changes is to ensure that the ESO prepares and submits a Remuneration Policy and an Expenses Policy to the Authority for approval, and then complies with those policies.

### **Special Conditions - Chapter 3: Transmission Revenue Restriction**

<b>SpC 3.1 Transmission Network Revenue Restriction</b>	
Type of change	Amended condition
Relevant licensees	ESO
RIIO-1 number	SpC 3A
RIIO-1 licence condition name	Restriction of Transmission Network Revenue
Associated document	N/A

8.32 The purpose of this condition is to determine the level of Maximum Revenue that may be recovered by the ESO through Transmission Network Charges.

8.33 The reason for amending this condition is to improve the clarity of the condition and to bring into effect policy decisions relating to ESO separation, innovation funding, TNUOS cashflow allocation and bad debt as well as finance related changes. We have removed the ADJ (adjustment) term and K under-recovery term from 2023/24 onwards, as following our TNUOS cashflow allocation decision, the ESO will not be exposed to K cashflow risk in RIIO-2.

8.34 The effect of the amendment is to remove the FIN term; replace the assortment of true-up terms with the collective ADJ term (as per the finance licence drafting changes, as detailed in the Chapter, ‘Proposed changes to the Cross Sector Licence Conditions’; replace the NIC term by the SIFFT term; recover NIA via the

ESO Internal Allowed Revenue term (Special Licence Condition 4.1); and introduce a Bad Debt term to allow the recovery of TNUOS-related bad debt.

<b>SpC 3.2 Pass-through items</b>	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 3B
RIIO-1 licence condition name	Calculation of allowed pass through items
Associated document	N/A

8.35 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover.

8.36 The reason for amending the current licence condition is to fully reflect the separation of the ESO away from NGET as a consequence of which business rates are recovered from the ESO's Internal Allowed Revenue, rather than from TNUOS revenue. We also have removed a multitude of true-up terms by an ADJ (adjustment) term in the principal formula, as per the finance licence drafting changes.

8.37 The effect of the amended condition is to allow the ESO's business rate costs to be recovered via BSUOS, rather than TNUOS, and to improve the clarity of drafting.

<b>SpC 3.5 Legacy adjustments to revenue</b>	
Type of change	New licence condition
Relevant licensees	ESO
Associated document	N/A

8.38 The reason for introducing this condition is to calculate the term LARt (the legacy adjustments term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

8.39 The effect of this condition is to allow the ESO to recover the revenue true-up of RIIO-T1 allowances.

<b>SpC 3.6 Adjustment term</b>	
Type of change	New licence condition
Relevant licensees	ESO
Associated document	N/A

8.40 The reason for introducing this condition is to calculate the term ADJt (the adjustment term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

8.41 The effect of this condition is to true-up allowed revenue for differences between actual values and forecast values.

### **Special Conditions - Chapter 4: System Operator Revenue Restriction**

<b>SpC 4.1 System Operator Internal Revenue Restriction</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4A
RIIO-1 licence condition name	Restriction of System Operator Internal Revenue
Associated document	N/A

8.42 This condition sets out the allowed internal revenue for the ESO.

8.43 The reason for amending this condition is to improve the clarity of the condition and to bring into effect our Final Determination relating to ESO separation, innovation funding, and bad debt.

8.44 The effect of the amended condition is to replace the FIN term by an allowance within the pass-through, PT term; replace the assortment of true-up terms by the collect ADJ (adjustment) term, as per the finance licence drafting changes, as detailed in the Chapter, 'Proposed changes to the Cross Sector Licence Conditions'; include innovation allowances, NIA; and introduce a Bad Debt term to allow the recovery of BNUOS-related bad debt.

<b>SpC 4.2 Balancing Services Activity Revenue Restriction on External Costs</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4C
RIIO-1 licence condition name	Balancing Services Activity Revenue Restriction on External Costs
Associated document	N/A

8.45 This condition sets out the allowed external revenues for the ESO.

8.46 The reason we are proposing changes to this condition are to reflect that output incentives are to be recovered via the ESO's internal allowed revenue.

8.47 The effect of these changes is to move output incentives from the external balancing costs formula to the ESO's Internal Allowed Revenue term.

<b>SpC 4.3 Electricity System Operator Reporting and Incentive Arrangements</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4M
RIIO-1 licence condition name	Electricity System Operator Reporting and Incentive Arrangements
Associated document	ESORI Guidance Document and Business Plan Guidance Document

8.48 The purpose of this condition is to set out the ESO's incentive scheme and reporting arrangements.

8.49 The reason for amending the current licence condition is to reflect the ESO incentive scheme for RIIO-2 as set out in our Final Determinations. This has meant updating the IncPayExtt value.

8.50 The effect of the amendments is that the condition will accurately reflect the reporting and incentive arrangements for RIIO-2. The information included in the associated document 'ESORI Guidance document', which we have published alongside this consultation, will be updated to reflect these changes. We will also publish information in the associated document 'Business Plan Guidance document' next year to reflect these changes as well.

<b>SpC 4.4 SO-TO mechanism</b>	
Type of change	Amendment to an existing licence condition
Relevant licensees	ESO
RIIO-1 number	SpC 4J
RIIO-1 licence condition name	SO-TO mechanism
Associated document	N/A

8.51 The purpose of this condition is to establish a mechanism to encourage TOs to deliver constraint saving solutions under STCP 11-4.

8.52 The reason for amending this current licence condition is, firstly, to change the recovery of SO-TO costs to make this more consistent with the recovery of other

costs under RIIO-2. Secondly it is to ensure the licence is up-to-date and consistent with the licences for all TOs.

8.53 The effect of the amended condition will simplify the mechanism’s cost recovery process. It will also ensure that the ESO can recover costs for outage changes from all TOs (including OFTOs) rather just the Scottish onshore TOs.

8.54 Our proposed change to allow the ESO to recover costs from all TOs is not a direct result of RIIO-2 Final Determinations (and we did not propose the addition of OFTOs in our informal consultation in September). Instead, these are changes we have identified through the licence review process. We believe these changes will bring the licence up to date and will ensure it does not unnecessarily exclude the recovery of costs from NGET and OFTOs. We welcome views view from stakeholders on whether this accurately reflects the policy on this, including any reasons not to make this change.

<b>SpC 4.5 Total other revenue allowances</b>	
Type of change	New condition
Relevant licensees	ESO
Associated document	N/A

8.55 The reason for introducing this condition is to calculate the other revenue allowances term, which in turn feeds into the calculation of Calculated Revenue in Special Condiiton 4.1 (System Operator Internal Revenue Restriction).

8.56 The effect of the condition is to calculate the total of several other revenue terms.

### **Removal of RIIO-1 Special Conditions**

<b>SpC 2F Role in respect of the National Electricity Transmission System Operator area located in offshore waters</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	ESO, OFTOs
RIIO-1 number	SpC 2F
RIIO-1 licence condition name	Role is respect of the National Electricity Transmission System Operator area located in offshore waters
Associated document	N/A

8.57 The purpose of this condition is to ensure that the licensee prepares conduct and performance reports to facilitate the development of an efficient, co-ordinated and

economical system of electricity transmission, accounting for offshore transmission.

8.58 The reason for the removal of this condition is that Ofgem can obtain the information needed for a tender under SLC C25: Provision of information and assistance to the Authority, in relation to applications requiring the appointment of an offshore transmission owner.

8.59 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SpC 4B Balancing Services Activity Conditions: Interpretation</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	ESO
RIIO-1 number	SpC 4B
RIIO-1 licence condition name	Balancing Services Activity Conditions: Interpretation
Associated document	N/A

8.60 The purpose of this condition is to set out that all external revenue shall be measured on an accruals basis, after tax.

8.61 The reason for the removal of this condition is that the information in this condition will be considered elsewhere in the licence.

8.62 The effect of this change is to tidy up the licence by removing a redundant condition.

<b>SpC 7D Arrangements for the recovery of SO uncertain costs</b>	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	ESO
RIIO-1 number	Arrangements for the recovery of SO uncertain costs
RIIO-1 licence condition name	Spc 7D
Associated document	N/A

8.63 The purpose of this condition is to arrange the relevant adjustments for the recovery of the system operator's uncertain costs.

8.64 The reason for removing this condition is because under RIIO-2 there is no uncertainty mechanism relating to Enhanced Security Costs nor EMR Enduring Solution.

8.65 The effect of this change is to tidy up the licence by removing a redundant condition.

## 9. RIIO-2 Licence Drafting Principles

These are the licence drafting principles that we have applied when developing the drafting for RIIO2.

- 9.1 These licence drafting principles build upon those used in RIIO-ED1 and aim to ensure a consistent approach to all the licence conditions in RIIO-2.

### Definitions

- 9.2 Each licence will contain a definitions condition at the start of the special conditions, which sets out all of the definitions used in those special conditions. It will also set out which definitions in the standard licence conditions, legislation or other documents such as industry codes apply to the special conditions.
- 9.3 It is acceptable for a definition simply to refer to a definition in documents outside the licence and legislation eg in industry codes or the Price Control Financial Handbook. However, a decision will need to be made about whether that definition should be ambulatory eg "as from time to time amended" or static eg "version 2.3".
- 9.4 In general, where Ofgem are the authors eg RIGs or have a degree of control eg industry codes, especially if there are frequent updates, we recommend that the reference is ambulatory.
- 9.5 Defined terms should be capitalised.

### Structure of conditions

#### Title

- 9.6 Each licence condition will have a title, which in general should be no more than one line.

## Headings

- 9.7 Licence conditions that are more than a few paragraphs long should have headings, which should generally be no more than one line.

## Paragraphs

- 9.8 Each paragraph should only deal with one idea and this means that generally it should only contain one sentence.
- 9.9 In terms of paragraph levels, we should stick to paragraphs and sub-paragraphs without going any further. This makes the licence condition easier to read. If you find that you need more levels than this, it may be that what you really need is a definition for one of the terms.
- 9.10 If you are listing things, use sub-paragraphs for each item on the list, rather than one long sentence.

## Introduction

- 9.11 Every price control related licence condition should start with a section headed "Introduction". This should set out the purpose of the condition.
- 9.12 It should generally be no more than three paragraphs long. The first paragraph should explain what term within the PCFM is the subject of the licence condition and how it flows into the calculation of Allowed Revenue or Totex, where relevant.
- 9.13 It should be perfectly possible to have a short introduction even for a long licence condition because it should not replicate anything that is in the main body of the licence condition. It should only explain the purpose of the licence condition.

## A logical flow

- 9.14 After the introduction, a structure needs to be determined for the licence condition that ensures a logical flow. This includes:
- having basic concepts explained before any variations.
  - having any provisions dealing with uncertainty or how the licence will be changed after the provisions dealing with how things start out.

- having any provisions on what happens if the licensee fails to comply with the condition after the provisions on what they are being required to do.
- dealing with any procedural or minor points after the more substantive parts of the condition eg the establishment of Associated Documents.

## **Obligations**

- 9.15 Obligations should be set out precisely and not simply reiterate the existing duty to act in an “economic and efficient” manner. If necessary, this can be done outside of the licence for example in industry codes or guidance.
- 9.16 In some cases, it may be appropriate to qualify the extent of the obligation. This can be done by specifying particular circumstances in which the licensee does not have to comply with the obligation in the licence or creating an uncertainty mechanism to remove the obligation in certain circumstances or at specific times. Doing this provides more certainty than making the obligation one to use a certain level of effort.
- 9.17 Where an obligation is qualified by the level of effort, we should use “reasonable endeavours” or “best endeavours” and not “all reasonable endeavours”. As a starting point for new obligations we would expect to use “best endeavours”, since we have considered the obligation worth adding to the licence. However, there may in some contexts be a cost implication to this and the specifics of individual licence conditions and policy areas must be properly considered and may well warrant use of “reasonable endeavours”.
- 9.18 The licence could also specify the steps the licensee should take or at least the minimum steps as part of their “best endeavours” or “reasonable endeavours”.

## **Making changes to the licence conditions or obligations and Associated Documents**

- 9.19 In RIIO2 we will use the following processes most commonly:
- full licence modifications using the statutory process.
  - self-modification procedure. This will not include the option for licensees to require the Authority to use the statutory process. However, we will make sure self-modification procedures have a remit appropriate for challenge by

way of judicial review rather than an appeal to the CMA and where potentially the self-modification procedure has a very wide remit include some curtailment such as the "significant" test in the PCFI condition.

- directions
- consents.

9.20 We may also use:

- approvals.
- determinations.
- designations (in electricity you can only designate an area, contract, document or thing, not a person).
- acceptance (gas only).
- trigger – where a licence condition takes effect or ceases to have effect if certain circumstances arise or at certain times.

9.21 We will avoid two stage consultations, where we consult on whether we are going to consider an issue or the scope of the issue before consulting on the substantive decision.

9.22 In general, we will avoid deeming things, such as values or entries in a table, in the licence as changed. Instead we will actually change the value or entry using a self-modification procedure. This avoids the need to find various directions in order to understand the licence.

## **Consistency rules and style guide**

9.23 Use plain English wherever possible.

9.24 Use "must" instead of "shall" for placing obligations on the licensee.

9.25 Use the active rather than the passive voice ie "the licensee must send a notice", rather than "a notice must be sent by the licensee".

9.26 Use sub-paragraphs to show items in a list for clarity. The Oxford comma may assist in the understanding of a provision by showing that the last two items in a list are separate, but consider whether it would be clearer to use sub-paragraphs instead. For example, "wash, cut, and blow dry" is clearer than "wash, cut and blow dry", but "(a) wash; (b) cut; and (c) blow dry" is even clearer.

- 9.27 "Licensee", "condition", "licence", "special condition" and "standard condition" should be all lower case, unless at the beginning of a sentence.
- 9.28 Limit algebraic terms to a maximum of four letters, plus where appropriate a subscript, wherever possible.
- 9.29 Avoid cross references if possible. Where you need to make them, the first cross reference to another condition should refer to the number and the title. Subsequent cross references should simply refer to the number.
- 9.30 When referring to another licence condition or a particular paragraph within your own licence condition you do not need to say "above" or "below".
- 9.31 When referring to a Part, paragraph or sub-paragraph within a condition, you do not need to say "of this condition" because that is dealt with in the general interpretation sections of the SLCs and SSCs. We intend to add a similar provision to the SpCs for Appendices. Licence conditions impose obligations on licensees not Ofgem. Where we refer to Ofgem doing anything, this should make what Ofgem does a trigger for something else eg "when Ofgem issues a direction the licensee must ...." If this formulation can't be used, then you should say that Ofgem "will" do something or "will consider" doing something rather than "must".
- 9.32 Don't use "determine" unless you are referring to the actual determination of a question or dispute referred to Ofgem, instead you probably mean "decide" or "direct".