

To:

National Grid Electricity Transmission Plc
SP Transmission Ltd
Scottish Hydro Electric Transmission Plc
National Grid Electricity System Operator Ltd
National Grid Gas Plc
Cadent Gas Ltd
Northern Gas Networks Limited
Scotland Gas Networks Plc
Southern Gas Networks Plc
Wales & West Utilities Ltd.



Making a positive difference
for energy consumers

Direct Dial: 0203 263 9635

Email: Kelvin.Hui@ofgem.gov.uk

Date: 26/02/2021

All,

Direction under Part B of Special Condition 9.3 (Price Control Deliverable Reporting Requirements and Methodology Document) to issue the PCD Reporting Requirements and Methodology Document

1. Each of the companies to whom this direction is addressed is the holder of a licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 or section 7 of the Gas Act 1989.
2. In accordance with paragraph 9.3.9 of Special Condition 9.3 (Price Control Deliverable Reporting Requirements and Methodology Document) on 17 December 2020 the Gas and Electricity Markets Authority ("the Authority")¹ published on its website the text of the proposed PCD Reporting Requirements and Methodology Document and stated that representations must be made on or before 29 January 2021.
3. We received nine responses specific to this document, which we have carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the issues log which can be found on our website.
4. One common response was that the definitions of the different categories of PCD output delivery statuses and the details of the potential adjustments to allowances, should be set out in the licence and not in this Associated Document.

Respondents said that the determination of delivery statuses may result in material adjustments to allowances and that it is important licensees have transparency as to how these adjustments to allowances will be made, which should be provided for by the licence and not by an Associated Document.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

We recognise the concerns from respondents, and we have drafted the PCD Reporting Requirements and Methodology Document in line with the Associated Documents principle that Associated Documents should only be used where more detail and explanation is required, beyond that in the relevant licence condition.

The relevant licence conditions define the PCD output that licensees must 'Fully Deliver' (which is also defined in the licence condition). The licence condition also sets out that an adjustment will only be made where the licensee fails to 'Fully Deliver' the PCD output set out in the licence and that the Authority will do so in accordance with this Associated Document. We consider that this is the appropriate level of detail to have in the licence and to provide clarity to licensees on when an adjustment may be made.

Because of the variety and complexity of PCD projects, there is a need for flexibility in the approach to robustly assessing PCD output delivery and determining the appropriate adjustment to allowances. It has been necessary to create detailed principles, worked examples and PCD specific annexes. Therefore, in accordance with the Associated Document principles - we have provided this level of detail in the Associated Document, including the definition of terms only used in the Associated Document.

We have made several changes to the proposed text because of the responses received and these are set out in the issues log. Several licensees commented that the hypothetical examples, in particular example 3, were not clear in their possible outcome. We have made changes to the examples, specifically example 3.

One respondent commented on the timing of the PCD output assessment for the Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment (CROTT and CRORET). We have taken onboard comments and provided clarifications within the PCD Reporting Requirements and Methodology Document on this PCD.

Respondents also provided a list of typos and other errors that we have acknowledged and are reflected in the final text of the Associated Document.

In addition, we recognise that there are appendices to this Associated Document that are currently being, or have been, consulted on that provide additional guidance for specific PCDs. We will direct and re-publish the PCD Reporting Requirements and Methodology Document, with the appendices included, after we have reviewed the consultation responses and finalised the text of those appendices.

5. The full text of the Price Control Deliverable Reporting Requirements and Methodology Document as well as a track change version compared with that published on 17 December 2020 can be found here.²
6. The reason for this direction is to give effect to our decision in Final Determinations³ to have PCD Reporting Requirements and Methodology Document to provide further guidance on the reporting requirements for licensees and provide details of how we may determine the delivery status of Evaluative PCDs and determine a value for any adjustments to allowances, as set out by Part B of Special Condition 9.3.

² <https://www.ofgem.gov.uk/regulating-energy-networks/2021-price-control-review-riio-t2/consultations-and-decisions-riio-t2>

³ [Link to FDs or other place where we have set out things more fully.]

7. This direction is our notice of reasons for the purposes of section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.
8. Now the Authority pursuant to the provisions of Special Condition 1.1 (Interpretation and definitions) and Special Condition 9.3 hereby directs that the PCD Reporting Requirements and Methodology Document is issued and will have effect from 1 April 2021.

For more information regarding this Direction you should contact Kelvin Hui (Kelvin.Hui@Ofgem.gov.uk).

Min Zhu

Deputy Director, ET Sector, Systems & Networks

On behalf of the Authority and authorised for that purpose by the Authority