

# Guidance

## Price Control Deliverable Reporting Requirements and Methodology Document: Version 1

<b>Publication date:</b>	<u>26</u> <del>FebruaryXXXX</del> 2021	<b>Contact:</b>	Kelvin Hui
		<b>Team:</b>	Networks Directorate, RIIO Price Controls
		<b>Tel:</b>	0203 263 9635
		<b>Email:</b>	Kelvin.Hui@Ofgem.gov.uk

This document is directed at gas and electricity transmission network companies and gas distribution network companies (for the purposes of this document 'network companies'), as well as their stakeholders.

The purpose of this document is to set out requirements in relation to the reports that [Gas Distribution \(GD\)](#), [Gas Transmission \(GT\)](#) and [Electricity Transmission \(ET\)](#) licensees are required to provide in relation to Price Control Deliverables (PCD) and the methodology that the Authority will use when assessing PCDs.

© Crown copyright 2021<sup>10</sup>

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at: 10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

This publication is available at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Any enquiries regarding the use and re-use of this information resource should be sent to: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)



## Contents

<b>1. Introduction</b>	<b>6</b>
Background	6
<b>2. PCD principles</b>	<b>8</b>
Section summary	8
PCD Principles	8
<b>3. PCD specification and types</b>	<b>10</b>
Section summary	10
<b>4. PCD delivery status</b>	<b>12</b>
Section summary	12
<b>5. Adjustments to allowances</b>	<b>14</b>
Section summary	14
Mechanistic PCDs	14
Evaluative PCDs	14
<b>6. PCD reporting</b>	<b>19</b>
Section summary	19
<b>7. Process for the assessment of PCD delivery and allowance adjustments</b>	<b>23</b>
Section summary	23
Mechanistic PCDs	23
Evaluative PCDs	24
Supplementary Questions (SQ)	26
<b>Appendices</b>	<b>27</b>
<b>Appendix 1 - Definitions</b>	<b>28</b>
Definition of PCD terms	28
<b>Appendix 2 - Illustrative scenarios for adjustments to allowances</b>	<b>30</b>
<b>Appendix 3 – GTPAP [TO BE INCLUDED POST CONSULTATION]</b>	<b>32</b>
<b>Appendix 4 – Cyber Resilience PCDs</b>	<b>33</b>
<a href="#">Error! Hyperlink reference not valid.</a> <b>1. Introduction</b>	<b>Error! Bookmark not defined.</b>
<a href="#">Error! Hyperlink reference not valid.</a> Background	<b>Error! Bookmark not defined.</b>
<a href="#">Error! Hyperlink reference not valid.</a> <b>2. PCD principles</b>	<b>Error! Bookmark not defined.</b>
<b>defined.</b>	

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.PCD Principles .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.3. PCD specification and types .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.4. PCD delivery status...Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.5. Adjustments to allowances.....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Mechanistic PCDs..Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Evaluative PCDs....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.6. PCD reporting .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.7. Process for the assessment of PCD delivery and allowance adjustments .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Section summary .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Mechanistic PCDs .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Evaluative PCDs..Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Supplementary Questions (SQ).. Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Appendices .....Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.Appendix 1—DefinitionsError! Bookmark not defined.**

**Error! Hyperlink reference not valid.**~~Definition of PCD terms .....~~**Error! Bookmark not defined.**

**Error! Hyperlink reference not valid.**~~Appendix 2 – Illustrative scenarios for adjustments to allowances.....~~**Error! Bookmark not defined.**

## 1. Introduction

### Background

1.1. Price Control Deliverables (PCDs) are a key component of the RIIO-2 framework. Under our framework for PCDs, price control funding is linked to the delivery of outputs specified in the licence. This framework provides for the adjustment of the level and timing of allowances in the event the output is not delivered, not delivered to the specification required, or delivered late.

1.2. We are publishing this document in line with Special Condition 9.3 (Price Control Deliverable Reporting Requirements and Methodology [Guidance Document](#)) [that apply to the Gas Distribution \(GD\), Gas Transmission \(GT\) and Electricity Transmission \(ET\) sectors \(effective from 1 April 2021\).](#)

1.3. This document sets out the following:

- The principles that we will use when assessing delivery of PCDs and any adjustments to allowances;
- The types of PCDs we will use to hold network companies to account for [price control funding](#);
- Possible outcomes of our assessment of delivery of PCDs;
- Our approach to the adjustment of allowances associated with PCDs;
- Information that the licensee is required to provide as part of PCD reporting; and
- The process and timelines for our assessment of PCD delivery and allowance adjustments.

1.4. As specifically provided for in the Price Control Deliverable Reporting Requirements and Methodology Document licence condition this document, [including any appendices](#), may be added to or modified by the Authority following the consultation process set out in the licence condition.

[1.5. Certain PCDs may have additional reporting requirements or may require a different approach to assessment of delivery, and adjustments to associated allowances. Where applicable, these are set out in appendices to this document. This document is intended to be read in conjunction with its appendices.](#)



## 2. PCD principles

### Section summary

This section sets out the principles that underpin the PCD framework

(all definitions are outlined in Annex 1 of this document.)

### PCD Principles

2.1. Our PCD framework is based on the following principles. We will have due regard to these principles when implementing our PCD framework during the RIIO-2 period:

1. Each PCD is defined by the output, as specified in the licence<sup>1</sup>, that we expect the licensee to deliver, the date by which the output is to be delivered in full, and the price control allowances associated with that PCD.
2. Price control allowances associated with each PCD are provided on the condition that the licensee will deliver the PCD as specified in the licence by the delivery date. We will not make an adjustment to allowances if this condition is met.
3. If the licensee does not deliver the PCD as specified in the licence on time, the Authority may make a downward adjustment to the price control allowance associated with the PCD so that consumers only pay the efficient costs of work that has been delivered. For the avoidance of doubt, the value of such downward adjustments will not exceed the value of allowances associated with the relevant PCD.
4. For Evaluative PCDs, licensees may deliver an alternative specification to the one in the relevant licence condition. In such cases we will adjust allowances downwards to match the efficient cost of delivering the alternative, unless the licensee can demonstrate that:

---

<sup>1</sup> [In relation to certain PCDs the licence specifies the output by reference to a separate confidential document.](#)

- the alternative specification delivers an equivalent or better Consumer Outcome compared to the original specification in the licence; and
- where there are any cost savings compared to the value of allowances associated with the relevant PCD output, the cost savings are attributable to Efficiency or Innovation.

2.2. The onus is on the licensee to demonstrate any cost savings achieved are due to Efficiency or Innovation.

2.3. The work associated with certain PCDs may be subject to incentive mechanisms. These will be set out in the relevant licence conditions and will take effect in parallel with, and separate from, the funding adjustments under the PCD framework.

### 3. PCD specification and types

#### Section summary

This section explains the ~~two~~ types of PCDs that Ofgem uses to hold network companies to account for the output(s) that they are funded to deliver through their totex allowances.

3.1. In general, each PCD in the relevant licence condition is defined by the following information:

- The outputs a licensee is funded to deliver<sup>2</sup>;
- The delivery date of the outputs;
- The totex ~~baseline~~ allowances associated with the outputs; and
- How Ofgem will determine any [adjustments to associated totex allowances](#).

3.2. We have created two types of PCDs: Mechanistic and Evaluative.

- **Mechanistic PCDs** are set in cases where work is defined by volumes or numbers of units of deliverables, or activities that are typically repeatable and we can set allowances by reference to the unit costs. The output is typically defined by reference to a target volume or number of units to be delivered. In such cases, the reporting requirements are relatively light and the adjustments to allowances for non-delivery of work is intended to be automatic or largely automatic.
- **Evaluative PCDs** are set in cases where there is some flexibility in the output to be delivered, either in terms of the scope of works, costs, the specifications delivered, or [the timing of delivery](#). The output is typically defined by reference to the specification of work to be delivered. For Evaluative PCDs, there are more detailed reporting requirements on licensees, and our approach allows for a proportionate ex-post

---

<sup>2</sup> In relation to certain PCDs the licence specifies the output by reference to a separate confidential document.

assessment of PCD delivery in [accordance with this Associated Document](#) to determine whether an adjustment to allowances is necessary to protect consumers.<sup>3</sup>

---

<sup>3</sup> ~~Excludes The PCD created by SpC 5-59.12 (HyNet Front End Engineering Design Price Control) Deliverable) of the Gas Distribution licence, is an exception and this document does not apply. Instead please refer to Final Determinations and the licence.~~

## 4. PCD delivery status

### Section summary

This section explains how Ofgem will determine the delivery status of the outputs that network companies are funded to deliver.

4.1. The assessment of delivery status for Mechanistic PCDs are based on units or volumes delivered, based on the metric used to specify the PCD in the licence. It is not possible for a Mechanistic PCD to be delivered to a different specification. Licensees are required to report on the number of units or volumes of each Mechanistic PCD that have been delivered in the relevant regulatory year.

4.2. Evaluative PCDs may be assigned one or more of the following delivery statuses for reporting and assessment purposes.

- **Fully Delivered.** Where the licensee has delivered the output specified in the relevant licence condition on or before the delivery date set out in the relevant licence condition.
- **Fully Delivered With Alternative Specification.** Where the licensee has delivered a different specification to the one set out in the licence, while achieving a Consumer Outcome that is materially equivalent or better than what would have been delivered by the original specification, on or before the delivery date set out in the relevant licence condition<sup>4</sup>
- **Partially Delivered.** Where the licensee has delivered some, but not all, of the works specified in the licence.
- **Partially Delivered With Alternative Specification.** Where the licensee has delivered a different specification to the one specified in the licence, while achieving only a part of the Consumer Outcome that would have been delivered by the original specification, on or before the delivery date set out in the relevant licence condition.

---

<sup>4</sup> In relation to certain PCDs the licence specifies the output by reference to a separate confidential document.

- **Delayed.** Where the licensee has not delivered the PCD output by the delivery date specified in the relevant licence condition, but intends to deliver in full or part at a later date.
- **Not Delivered.** Where the licensee has not delivered the PCD output by the delivery date specified in the relevant licence condition and does not intend to deliver in full or part at a later date.

4.3. We expect licensees to set out their view of the delivery status of each Evaluative PCD as part of the relevant Basic PCD Report (see chapter on PCD reporting). We will form our own view of the delivery status once we have completed our assessment of the information provided by the licensee.

## 5. Adjustments to allowances

### Section summary

This section sets out our approach to determining the value of any adjustments to totex allowances that Ofgem considers necessary following our assessment of PCD delivery status.

### Mechanistic PCDs

5.1. For Mechanistic PCDs, where a licensee does not deliver the ~~target~~ volumes or numbers of units of the output by the delivery date as set out in the relevant licence condition the value of ~~downward~~ adjustments to allowances will be calculated in accordance with using with the formula and parameters set out in the relevant licence condition.

~~5.2.~~ The value of adjustments to allowances associated with the relevant PCD output will be calculated based upon the data submitted by licensees as ~~in the PCD tracking template that form~~ part of the annual reporting packs (RRPs), which may be subject to validation by Ofgem. There are no upward adjustments to associated allowances if the licensee delivers more than the volume or number of units of the output.<sup>5</sup>

~~We do not expect to make an upward adjustment to associated total baseline allowance if the licensee delivers more than the target volume or number of units of the output.~~<sup>6</sup>

### Evaluative PCDs

~~5.2-5.3.~~ In line with our PCD framework principles, Ofgem will not make adjustments to allowances associated with Evaluative PCDs in the following circumstances:

- The PCD output is assessed by us as Fully Delivered; or

---

<sup>5</sup> For the avoidance of doubt, this does not cover the Gas Distribution Repex PCD

- The PCD output is assessed by us as Fully Delivered With Alternative Specification and any underspends achieved by the licensee relative to associated allowances is demonstrated by the licensee to be attributable to Efficiency and/or Innovation.

~~5.3. Where the licensee can demonstrate that it has undertaken the work reasonably required to deliver the PCD output in full as specified in the relevant licence condition, but for reasons outside its control, the output was not fully delivered, we may decide that adjustments to allowances is not necessary.~~

~~5.4. In all other cases, the Authority will consider making adjustments to the value of allowances associated with the relevant PCD output, taking account of the particular characteristics of the PCD, factors outside of the licensees control, and what was delivered by the licensee, and based upon the following principles:~~

~~5.4. In all other cases, the Authority will consider making adjustments to the value of allowances associated with the relevant PCD output, based upon the following principles:~~

1. Where the PCD is assessed by us as 'Not Delivered', we will reduce allowances by the entire amount associated with the PCD less the efficient costs of undertaking reasonable and necessary work up to the point of cancellation, e.g. upfront engineering assessments. It is the responsibility of the licensee to demonstrate that such costs were reasonable, necessary, incurred efficiently and not funded through other price control mechanisms.
2. Where the PCD is assessed by us as 'Delayed', we may re-profile allowances associated with the relevant PCD output to match the profile of actual delivery of work or expenditure with the updated timing for the outputs. Ofgem will only re-profile allowances where doing so would have a material impact upon current and future consumers~~Ofgem will only re-profile allowances where doing so would have a material impact upon current and future consumers.~~ If appropriate, we will notify to the licensee an alternative submission date for the Basic PCD Report taking account of the licensee's updated delivery plan. The re-profiled allowances may be subject to an adjustment if the output delivered does not meet the requirements in paragraph 5.3
3. Where the PCD output has been assessed by us as Partially Delivered, or Partially Delivered With Alternative Specification (and licensees can robustly justify that any cost savings are attributable to Efficiency and/or Innovation), and where the proportion of the output or Consumer Outcome associated with the work delivered can

be robustly estimated, the value of any adjustments to allowances associated with the relevant PCD output may be determined by Ofgem as follows:

~~2.~~ *Adjustment to allowances = ((1 – Proportion of output delivered) \* ex ante allowance)*

Formatted: Paragraph, numbered, Indent: Left: 1.27 cm, Hanging: 0.89 cm, No bullets or numbering

Formatted: Font:

~~4.~~ Where paragraphs 5.3, 5.4.1 and 5.4.2 do not apply, and where the adjustment methodology set out in 5.4.3 is not appropriate, we will determine the value of any adjustments to allowances according to the actual work carried out. In doing so we may rely on benchmarking against historical cost data where these are available. Where reliable historical data are not available, we may use bespoke engineering and cost assessment and employ qualitative techniques to supplement technical methods to enable a determination of efficient costs.

~~3-5.~~ \_\_\_\_\_ The outcome of any adjustment to allowances will not be an increase in the total RIIO-2 allowance associated with the PCD output, as defined in the relevant licence condition or relevant confidential documents.

~~5.5.~~ The value of any adjustments to allowances for individual Evaluative PCDs will be determined by Ofgem on a case-by-case basis, taking account of the particular characteristics of the PCD and what was delivered by the licensee. Where the PCD has been assessed by us as Partially Delivered or Partially Delivered With Alternative Specification, the value of any adjustments to allowances associated with the relevant PCD output may be determined by Ofgem using a pro-rata adjustment as follows:

~~*Adjustment to allowances = ((1 – Proportion of output delivered) \* ex ante allowance)*~~

~~We will determine the proportion of output delivered on a case-by-case basis depending on the nature of the PCD, taking account of a range of factors. In doing so, we may draw on more than one source of evidence on the proportion of output delivered. For instance:~~

- ~~• Where the proportion of the output or Consumer Outcome associated with the output can be robustly estimated, we may consider the ratio of the output or Consumer Outcome delivered against the output or Consumer Outcome of the output specified in the licence.~~
- ~~• In other cases, we may consider the ratio of efficiently incurred expenditure against the allowance linked to the PCD. In determining whether expenditure incurred is efficient, we may rely on benchmarking against historical cost data where these are~~

~~available. Where reliable historical data are not available, we may use bespoke engineering assessments.~~

5.5. Where we make an adjustment to allowances, we will determine the proportion of the adjustment that should be attributed to each Regulatory Year of RIIO-2, on a pro-rata basis to match the profile of actual expenditure reported by the licensee.

5.6. Ofgem will determine the split between Fast Money and RAV additions for the value of the adjustment to allowances having regard to the original split of the allowance linked to the PCD.

5.7. Where applicable, further specifics are set out in the relevant appendices to this document. details for Certain PCDs (e.g. Cyber IT/OT, GT compressor) on determining any adjustments to allowances.

5.8. In all cases, we will determine adjustments to allowances using a transparent approach,<sup>7</sup> having consulted with licensees and other stakeholders. We will take account of any representations made by licensees and other stakeholders in line with our legal duties. Specifically, Ofgem will consult on the wording of its proposed direction for a period of not less than 28 days in accordance with the licence. Ofgem’s consultation will include:

- o Ofgem’s proposed PCD output delivery status;
- o the value of any adjustments to allowances associated with the relevant PCD output; and
- o the methodology and data used to determine the delivery status and the value of any adjustments to allowances associated with the relevant PCD output.

---

<sup>7</sup> Subject to requirements for confidentiality.



## 6. PCD reporting

### Section summary

This section sets out the reporting requirements for licensees.

6.1. For ~~both Mechanistic and Evaluative~~ all PCDs, licensees are required to submit ~~duly~~ completed reporting templates and associated commentary as part of the RIIO-2 Regulatory Reporting Templates (RRP) as directed by the relevant Regulatory Instructions and Guidance (RIGs).

6.2. For Mechanistic PCDs, the reporting requirements are intended to be proportionate and used for the purposes of tracking delivery of PCDs and calculating the value of any adjustments to allowances associated with the relevant PCD output in line with the licence.

6.3. For Evaluative PCDs, the reporting templates are intended to capture high-level information about the status of each PCD on an ongoing basis, including:

- Progress towards delivery of the relevant PCD output;
- likely date of project completion;
- any external factors that may impact delivery;
- the use of alternative specifications to deliver the PCD output<sup>4.2</sup>;
- ~~the indicative value of any potential adjustments to allowances associated with delivery of the PCD output that may be required.~~

6.4. For each Evaluative PCD, licensees are required to submit a Basic PCD Report along with the RRP templates due in the regulatory year following the regulatory year in which the delivery date occurred.

6.5. The Basic PCD Report must include the following information:

- PCD identification (e.g. Licence Condition, Scheme Name)<sup>4.2</sup>;
- The licensee's view of the delivery status of the PCD, as outlined in paragraph <sup>4.2</sup>;

- A brief description of the work actually delivered;
- If the PCD has not been Fully Delivered in the view of the licensee, or if the work delivered does not meet the PCD specification, a brief explanation of the reasons for non-delivery or variation;~~:-~~
- If the delivery of the PCD has been delayed, a brief explanation of the reason for the delay and a timeline for completion;~~:-~~
- An annual breakdown of actual expenditure incurred; and, -
- the indicative value of any potential adjustments to -allowances associated with delivery of the PCD output that may be required.

6.6. Following our assessment of the Basic PCD Report, we will determine a provisional PCD delivery status and will decide whether to undertake a Full PCD Report Review. Where there is clear evidence and justification that the PCD is Fully Delivered we will not undertake a Full PCD Report Review.

6.7. Where we have decided to undertake a Full PCD Report Review, we will direct the licensee to submit a Full PCD Report as set out below, which will generally be required within 28 days of the direction. Licensees may request a longer period if that is deemed to be necessary.

6.8. The required contents of the Full PCD Report will depend on the individual circumstances of the PCD and its delivery status as determined by us. However, indicative required contents by PCD delivery status are given below.

~~6.6.6.9.~~ In the case of Delayed PCD output delivery, the requirements for the Full PCD Report will include; but is not limited to:-

- a. A detailed description of what has been delivered and when, compared to the outputs in the relevant licence condition;
- b. A detailed delivery plan setting out the licensee's plans and timelines for completion of the delivery of the PCD output;
- c. The licensee's explanation of the proportion of the output and Consumer Outcome delivered compared to the requirements of the licence, along with supporting evidence of this;
- ~~b-d.~~ An explanation of the reasons for the delay along with details of steps taken to prevent further delays;

- ~~e.e.~~ Expenditure incurred to date, and forecast expenditure;
- ~~d.f.~~ The licensee's proposals for any re-profiling of the value of allowances associated with the relevant PCD output;

~~6.7-6.10.~~ In the case of Partially Delivered and Partially Delivered With Alternative Specification, the requirements for the Full PCD Report will include ~~but is not limited to~~:

- a. A detailed description of the work delivered compared to the requirements of the licence;
- b. An explanation for the partial delivery;
- c. The licensee's view of the proportion of output and Consumer Outcome delivered, including supporting evidence and analysis.
- d. The licensee's view of the efficient cost of delivering the specification that was actually delivered, along with supporting information;
- e. The licensee's proposals for any adjustments to allowances.

~~6.8-6.11.~~ In the case of Fully Delivered With Alternative Specification, the requirements for the Full PCD Report will include ~~but is not limited to~~:

- a. The licensee's explanation of how the Consumer Outcome delivered by the alternative specification compares in the short and long term with the original output, along with supporting evidence of this.
- b. The licensee's view of what ~~the "ex-ante" allowances for~~ the efficient cost of delivering the alternative specification, along with supporting evidence.
- c. The licensee's actual incurred expenditure of delivering the alternative specification (if different from the above), along with supporting information.
- d. Where the licensee's actual expenditure is lower than the value of allowances associated with the relevant PCD output, a statement of whether the licensee considers the savings achieved relative to the allowances is due to Efficiency and/or Innovation along with supporting evidence to demonstrate this.

6.12. In the case where the output is Not Delivered, the requirements for the Full PCD Report will include:

- a. A statement explaining the reasons for non-delivery including any supporting evidence.
- b. The licensee's view of the efficient costs of reasonable works that took place leading up to the cancellation or deferral in the consumer interest along with supporting evidence.
- c. The licensee's actual incurred expenditure [in undertaking in the works in \(b\) \(if different from the above\)](#).

6.13. Where the licensee has schemes/projects that are covered by PCDs but also by other mechanisms that require additional information, then the Authority may allow the Full PCD Report to be combined with other reporting requirements.

6.14. [Some PCDs may have additional reporting requirements. Where applicable, these are set out in relevant appendices to this document.](#)

## 7. Process for the assessment of PCD delivery and allowance adjustments

### Section summary

This section sets out the process we expect to follow as part of our PCD assessments.

7.1. The aim of the assessment process is to ensure the determination of PCD output delivery status and any adjustments to allowances is efficient, timely, transparent and proportionate with respect to individual PCDs.

### Mechanistic PCDs

7.2. For Mechanistic PCDs, our assessment of delivery will be based on data reported by licensees in the PCD tracker template that forms part of the RRP.

7.3. Table 7.1 below sets out the assessment process for Mechanistic PCDs.

Table 7.1

Process for Mechanistic PCDs
1. Submission of PCD tracker template as part of the Regulatory Reporting Packs
2. <b>Assessment including supplementary question (SQ) process</b> <ul style="list-style-type: none"><li>Using the data from the RRP, Ofgem will calculate the value of the adjustment to allowances (where required) using the relevant formulae as stated in the relevant licence condition.</li><li>Ofgem may issue supplementary questions (SQs), where it is necessary to complete the assessment.</li></ul>
3. <b>Annual Iteration Process</b> <ul style="list-style-type: none"><li><u>Allowances are adjusted via the Annual Iteration Process. When a PCD adjustment is input in the Price Control Financial Model, the resulting revenue adjustment is reflected in the following year. This may occur within the RIIO-2 period, where the final delivery date is within the RIIO-2 period, or as part of the RIIO-2 Close-out process in RIIO-3. Ofgem will reflect the adjustment to allowances in the next Annual Iteration Process or as part of the RIIO-2 Close-out process in RIIO-3</u></li></ul>

## Evaluative PCDs

7.4. For Evaluative PCDs, our assessments will usually commence upon receipt of the relevant Basic PCD Report. Licensees must submit the report by 31 July following the end of the regulatory year in which the PCD was due to be delivered unless otherwise directed by the Authority. For example, if the PCD delivery date is 31 March 2023, the Basic PCD Report is due to be submitted by 31 July 2023, and the assessment process will commence shortly thereafter. Licensees may submit the Basic PCD report earlier than the 31 July of the relevant year<sup>8</sup>.

7.5. In some cases, the delivery of a PCD output is a trigger for a re-opener submission or is the Re-opener submission. In such cases, the PCD assessment will be undertaken as part of the re-opener assessment. For those PCD outputs that form part of a Re-opener assessment, the timing of assessments and submissions are specified in the relevant licence condition. Where appropriate we have provided additional guidance on reporting requirements in the relevant appendices within this document or the Re-opener Guidance and Application Requirements Document.

7-5-7.6. Table 7.2 below sets out the indicative process for Evaluative PCDs. We will seek to complete the assessment process within a period of 9 months or less, so that our decision on allowance adjustments can be reflected in the Annual Iteration Process the year following the relevant review window. However, we recognise that for a variety of reasons this may not always be possible.<sup>9</sup>

Table 7.2

<b>Indicative Evaluative PCD assessment process</b>
<ol style="list-style-type: none"><li>1. Preliminary Review<ul style="list-style-type: none"><li>• Following the submission of the Basic PCD Report, Ofgem to conduct an initial assessment of whether the delivery of PCD output complies with relevant licence condition, using information submitted.</li></ul></li></ol>

---

<sup>9</sup> Where a PCD relates to work associated with a subsequent Re-opener due to take place, we will seek to complete the assessment process as soon as is practicable and in-line with requirements of the associated re-opener.

<ul style="list-style-type: none"><li>• Where possible, Ofgem to initially determine if PCD output is:<ul style="list-style-type: none"><li>○ Fully Delivered</li><li>○ Fully Delivered With Alternative Specification</li><li>○ Partially Delivered</li><li>○ Partially Delivered With Alternative Specification</li><li>○ Delayed</li><li>○ Not Delivered</li></ul></li><li>• Ofgem to notify to licensee whether Ofgem will undertake a Full PCD Report review.</li><li>• Ofgem may submit supplementary questions to clarify information.</li><li>• If a Full PCD Report Review is required, Ofgem will initiate discussions with the network company to determine data requirements, and provide additional guidance where appropriate for the Full PCD Report, including whether the 28-day deadline for submission could be extended.</li></ul>
<p><b>2. Full PCD Report submission</b></p> <ul style="list-style-type: none"><li>• <u>Network company to submit its Full PCD Report to Ofgem by the specified deadline.</u></li><li>• <u>Ofgem may submit supplementary questions to clarify information.</u></li></ul>
<p><b>3. Full PCD Review - including supplementary question (SQ) process</b></p> <ul style="list-style-type: none"><li>• Ofgem will carry out a detailed assessment of delivery status and any <u>proposed</u> adjustments to allowances based upon the information from the Full PCD Report, responses to SQs and any other relevant information available to Ofgem.</li></ul>
<p><b>4. Minded-To Decision (optional)</b></p> <ul style="list-style-type: none"><li>• Ofgem may consult on a minded-to decision if it considers that to be necessary. Otherwise the process will move immediately to the Draft Decision (below).</li></ul>
<p><b>5. Draft Decision</b></p> <ul style="list-style-type: none"><li>• <u>If a direction is considered necessary</u>, Ofgem will consult on the wording of its proposed direction under the relevant PCD licence condition for a period of not less than 28 days in accordance with the licence.</li></ul>
<p><b>6. Decision</b></p> <ul style="list-style-type: none"><li>• If necessary, Ofgem will issue a direction under the relevant PCD licence condition following consideration of responses received<sup>10</sup>.</li></ul>
<p><b>7. Annual Iteration Process</b></p> <ul style="list-style-type: none"><li>• <u>Allowances are adjusted via the Annual Iteration Process. When a PCD adjustment is input in the Price Control Financial Model, the resulting revenue adjustment is reflected in the following year. This may occur</u></li></ul>

---

<sup>10</sup> Depending on the timing of the delivery date, some PCDs may be treated as part of RIIO-2 Close-out. Such example is Cyber Resilience OT PCDs, which will be assessed as part of RIIO-2 Close-out due to its two-stage assessment process.

~~within the RIIO-2 period, where the final delivery date is within the RIIO-2 period, or as part of the RIIO-2 Close-out process in RIIO-3 Ofgem will reflect any impact on allowances of its decision in the next Annual Iteration Process.~~

~~7.6.7.7. For the avoidance of doubt, adjustments to allowances could may be made in the during or after the RIIO-2 period in respect of adjustments to previous Regulatory Years.~~ In assessing the delivery status of Evaluative PCDs and any associated adjustments to allowances, we will consider all relevant information, which may include information submitted by licensees in their RIIO-2 Business Plans and associated documents (including responses to SQs during the RIIO-2 review process)<sup>11</sup>.

#### Supplementary Questions (SQ)

~~7.7.7.8.~~ The SQ process is intended for clarification purposes only. Network companies should not expect to use it as a means of submitting additional information that the Basic PCD Report and Full PCD Report should have included.

~~7.8.7.9.~~ Network companies will be required to respond to an SQ within 5 or 10 working days, depending on the complexity of the query, unless otherwise specified by us.

## Appendices

### Index

Appendix	Name of Appendix	Page No.
1	Definitions	28
2	Illustrative scenarios for adjustments to allowances	30
3	GT-PAP	32
4	Cyber Resilience PCDs	33
5	Enter Text here	
6	Enter Text here	

## Appendix 1 - Definitions

### Definition of PCD terms

Terminology	Definition
<b>Mechanistic PCD</b>	means a Price Control Deliverable where the relevant licence condition states the formulae that <a href="#">automatically</a> calculates an adjustment to allowances.
<b>Evaluative PCD</b>	This term is defined in the <a href="#">Special Condition 1.1 of the relevant sector Special Conditions licence</a> .
<b>Basic PCD Report</b>	means the report the licensee is required to submit, pursuant to <a href="#">Special Condition paragraph 9.3.3 of Special Condition 9.3</a> .
<b>Full PCD Report</b>	means the report the licensee is required to submit pursuant to <a href="#">Special Condition paragraph 9.3.4 of Special Condition 9.3</a> .
<b>Full PCD Report Review</b>	means Ofgem’s assessment of a Full PCD Report.
<b>Efficiency</b>	<p>means investment decision-making by the licensee that resulted in lower costs than could have been reasonably expected at the time of submitting the RIIO-2 Business Plan for the delivery of the PCD output and associated Consumer Outcome.</p> <p>But does NOT mean costs avoided by delivering a lower Consumer Outcome than the original PCD output, or as a result of external factors such as demand growth, government policy etc.</p>
<b>Innovation</b>	<p>means:</p> <ol style="list-style-type: none"> <li>1) Solutions that have been trialled by any licensee as part of a NIA innovation project during the RIIO-1 or RIIO-2 periods; or</li> <li>2) involves the application of novel technology, systems or processes that were not proven as at the time of submission of the RIIO-2 Business Plans.</li> </ol>
<b>Consumer Outcome</b>	means the benefits to existing and future consumers in terms of maintenance of existing levels of, or improvements in the network’s

capability or resilience, or benefits to consumers in terms of service quality, that would have been delivered by the PCD output over the whole life of the PCD output as specified in the relevant licence condition.

In the context of works delivered by the licensee, this means the benefits to customers or consumers in terms of maintenance of existing levels of, or improvements in the network’s capability or resilience, or benefits to consumers in terms of service quality, that can be attributed to the works delivered by the licensee over the whole life of the works delivered.

## Appendix 2 - Illustrative scenarios for adjustments to allowances

In this ~~annex~~ appendix we provide illustrative examples of the potential adjustments to the value of allowances associated with the PCDs. These examples are purely illustrative, and Ofgem will determine adjustments to allowances on a case-by-case basis taking account of all relevant information.

### **Hypothetical example 1 (~~late delivery~~ Delayed):**

Original defined PCD: £200m to deliver 1000MW boundary capability based on newbuild of OHL.

At the delivery date, £160m has been spent to deliver 800MW boundary capability based on the solution defined in the licence, licensee demonstrates that they intend to deliver the remaining 200MW boundary capability late by one year.

~~We may decide to re-profile allowances such that 20% of the allowance is deferred to the year after the original deadline.~~

Where we have evidence that the delay in delivering the PCD would have a material impact on Consumer Outcome, we may decide to re-profile allowances to match the new expected delivery profile

The licensee will be directed to provide a Basic PCD Report after the ~~revised delivery date~~ work is complete.

### **Hypothetical example 2 (~~alternative specification~~ Fully Delivered With Alternative Specification):**

Original defined PCD: £200m to deliver 1000MW boundary capability based on newbuild of OHL.

At the delivery date, £160m spent to deliver 1000MW boundary capability based on a different specification than that specified in the PCD licence condition.

If the licensee can demonstrate that the cost savings of £40m is attributable to Efficiency or Innovation, we will not make any adjustments to allowances. Otherwise, we will assess the efficient costs of delivering the alternative specification, using the information and tools available to us. We will then adjust allowances downwards such that the allowance matches the assessed efficient costs.

**Hypothetical example 3 (Partially Delivered):**

Original defined PCD: £5M to install 50 new novel instrument Transformers (ITs).

At the delivery date, £4m spent to install 46 new novel ITs. Where at the end of the period the licensee has replaced 46 Its for £4m and has not needed to replace the additional 4 ITs as a result of an Efficient or Innovative decision (e.g. for this example - site rationalisation), we may follow two paths:

If the licensee can demonstrate that the cost savings of £1m is attributable to Efficiency or Innovation e.g. justified site rationalisation, we will not make any adjustments to allowances.

Otherwise, we will assess the efficient costs of delivering the 46 ITs, using the information and tools available to us. We will then adjust allowances downwards such that the allowance matches the assessed efficient costs of delivering the 46 ITs.

**Hypothetical example 4 (cancellation/Not Delivered):**

Original defined PCD: £200m to deliver 1000MW boundary capability based on newbuild of OHL.

Construction is cancelled due to innovations in other areas of the network mitigating the need for new investment. £1m spent on desktop studies and system analysis that led to the decision to cancel the project.

If the licensee can demonstrate that the expenditure on desktop studies and system analysis was efficient and necessary, we will adjust allowances downwards by £199m so that the licensee retains the efficient costs incurred in undertaking those activities.

**Appendix 34 – GTPAP [TO BE INCLUDED POST CONSULTATION]**

## **Appendix 45 – Cyber Resilience PCDs**

In relation to PCDs set under Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it allowance) and Special Condition 3.3 (Cyber resilience information technology Re-opener and Price Control Deliverable), the requirement for a Basic PCD Report will be satisfied by compliance with the reporting requirements in those special conditions.

Our assessment of PCDs set under Special Condition 3.2 will take place as part of close out of the price control. This is because of the two-stage assessment that is required. We will first consider whether any adjustment is required as a result of following the methodology for Evaluative PCDs in this document. We will then consider whether any Use It Or Lose It Adjustment is required. The Use It Or Lose It A-adjustment will be determined by assessing ~~companies~~the licensee's total efficient spend for qualifying cyber resilience OT activities against the total use-it-or-lose-it allowance for cyber resilience OT. We will make one adjustment, if required, to reflect both assessments.