
Modifications to the RII0-2 licence conditions - reasons and effects

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1. Introduction

- 1.1 We are making modifications to the licence conditions that implement our decisions in the SSMD¹ and the Final Determinations² on the RIIO-ET2, RIIO-GT2, RIIO-GD2 and RIIO-ESO price control settlements.
- 1.2 The modifications we are making are set out in annexes to this decision.
- 1.3 The modifications follow a statutory consultation, which was published on 14 April 2021.³
- 1.4 Within this document, we set out the reasons why we are making these changes and their intended effect.
- 1.5 These modifications do not apply to the Electricity Distribution licences.

Context of these licence changes

- 1.6 For the most part, we are making changes to the following licences only:⁴
 - 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.

¹ RIIO-2 Sector Specific Methodology Decision [here](#)

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

³ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions>

⁴ Note that Standard Licence Conditions may apply to licensees other than those listed.

- for RIIO-ESO - the National Grid Electricity System Operator (NGESO).

1.7 There are three different types of licence conditions to which we are making changes. We have summarised these below.

Standard Licence Conditions (SLCs)

1.8 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.

1.9 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)

1.10 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)

1.11 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.

2. Changes to the Licence Conditions

Section summary

This chapter explains the reasons why we are making changes to the licence conditions and the effect of those modifications.

Reason and effect for minor snagging issues

- 2.1 The reason for these modifications is to address minor snagging issues, such as typographical errors, that have been raised by licensees and Ofgem since the RIIO2 licence modifications were made on 3 February 2021. The issues log published alongside this decision sets out all of these minor snagging issues together with our responses to date. Where an error has been identified in relation to one licensee or sector, we have endeavoured to apply the correction to other licensees where relevant.
- 2.2 The effect of these modifications is to tidy and improve the clarity of the licences and to enable the licence conditions and the formulas within them to function as intended.
- 2.3 We are aware that there are additional snagging issues raised by licensees or internally on the snagging list that are yet to be addressed. We will progress these at a later date.

Reason and effect for changes to the Electricity Transmission licences

Corrections to values, terms and formulas

- 2.4 We have made various amendments to:
 - Volume driver terms;
 - Price Control Deliverable (PCD) values;
 - Price Control Financial Model (PCFM) values; and

- Formulas.

2.5 For SPTL and SHE-T, the definitions of “Ex-ante Base Revenue” and “Materiality Threshold” have been revised in accordance with corrections made.

2.6 The reason for these modifications is to correct errors. The issues log published alongside this decision sets out further detail on these errors together with our response.

2.7 The effect of these modifications is to ensure the licence and PCFM calculate the correct allowances in line with our decisions in SSMD and Final Determinations.

Amendment to the definition of LOTI in Special Condition 1.1

2.8 The reason for this modification is to streamline the definition of the term ‘LOTI’ in the Electricity Transmission licensees.

2.9 The effect of these modifications is to provide clarity that a LOTI project must be at least in-part load-related and to remove any perception that demand-related projects over £100m were not included.

Other new or amended conditions

Special Condition 3.36 Opex Escalator (OE_t)	
Type of change	Amendment to existing licence condition
Relevant licensees/relevant sectors	ET
Associated document	N/A

2.10 The reason for this modification is to make clear a component of the OE_t adjustment is based on the energisation date of specific projects.

2.11 The effect is to correct the licence algebra in line with the intent of our decisions in Final Determinations.

Special Condition 3.37 Entry and exit connection asset allowance (EECA_t)	
Type of change	New licence condition
Relevant licensees/relevant sectors	ET
Associated document	N/A

2.12 The reason for adding this licence condition is to create a PCFM Variable Value for connection allowances that allows for the adjustment of connection capital contributions and (for SPTL and SHET) expenditure allowances.

2.13 The effect is to allow the adjustment of connection related expenditure/capital contributions through the annual iteration process.

Special Condition 3.38 RIIO-ET1/RIIO-ET2 Offset Adjustment	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET
Associated document	N/A

2.14 The reason for adding this licence condition is to create a special condition for the RIIO-ET1/RIIO-ET2 offset adjustment, which already existed in the Price Control Financial Model as a variable value, but without an accompanying Special Condition.

2.15 The effect is to provide a licence appendix table for the values already part of the PCFM.

Special Condition 3.39 Legacy baseline connections volume driver (LGCeT)	
Type of change	New licence condition
Relevant licensees/relevant sectors	SHET
Associated document	N/A

2.16 The reason for adding this licence condition is to create a special condition for a legacy baseline connection volume driver, which refers to a condition in effect on 31 March 2021 that needs to continue having effect until the closeout of RIIO-ET1.

2.17 The effect is to provide a PCFM Variable Value for revising totex in relation to schemes that straddle RIIO-ET1 and RIIO-ET2.

Reason and effect for changes to the inflation method used

- 2.18 The reason for this modification is to amend the calculation of the monthly 'spliced' price index (PI_m), so that the value for April 2021 uses both the RPI⁵ and CPIH⁶ growth rates in equal measure.
- 2.19 The effect of these modifications is to more accurately reflect a transition to CPIH as of 1 April 2021, in line with our decisions in the Final Determinations.
- 2.20 Modifying the construction of the monthly index avoids the need to rebase any historical input values or include one-off adjustments to RAV.⁷ This is our preferred approach because it avoids needing to revise inputs or adjustments following the publication of the April 2021 RPI and CPIH indices, and can instead be captured by the routine updating of inflation values.
- 2.21 We have considered knock-on effects of the change in the inflation index calculation since the licence statutory consultation in December 2020, such as potentially setting totex allowances marginally too high. We concluded that it would be too immaterial to warrant revision. This is because between 70% and 91% (~84% overall) of allowances are indexed to RPEs, and any residual underspend is further shared with consumers (50-67%).
- 2.22 We are not proposing to modify the cost of capital as a result of the changes to the price index calculation.

Reason and effect for modifications to the PCFM

Aligning the PCFM with the licence and Final Determinations

The reason for modifying the PCFM is to correct certain input values such that the PCFM aligns with the values set out in our Final Determinations. We have also made a number

⁵ Retail prices index.

⁶ Consumer Prices Index including owner occupiers housing costs.

⁷ Regulatory Asset Value.

of modifications to the PCFM to align it with the special licence conditions. These modifications include:

- The introduction of the SIFF variable value in the GT2 PCFM;⁸
- The introduction of the EECA variable value in the ET2 PCFM;
- The reclassification of the gas holder demolitions PCD allowance from a variant allowance to a non-variant allowance;
- Updating the Business Plan Incentive value for SPTL and SHET;
- For SPTL and SHET, the values of ADJR* for 2021/22 have been overwritten to include correction to cost values and BPI values, in line with final determinations;
- Updating the funding adjustment rate for SHET; and
- Corrections of variable value labels to align with the relevant licence conditions.

The effect of these modifications is to align the PCFM with the latest version of the licence and with the values set out in our Final Determinations Finance Annex.

Tax Pool modifications

We proposed modifications to the Tax Pools calculation in the PCFM to reflect the capital allowance changes that were announced by HM Treasury in the Spring 2021 Budget, enabling a “super-deduction” for any eligible capital expenditure from 01 April 2021 – 31 March 2023.

Following the consultation feedback received, we have decided not to make the proposed modifications to the Tax Pools calculation in the PCFM and instead we propose to treat the super-deduction changes as a Tax Trigger event under the process set out in the Price Control Financial Handbook.

⁸ Note the SIF licence conditions are just placeholders and a separate statutory consultation will be carried out. However, to ensure functionality of the PCFM on 1st June 2021 we are adding the variable value to the PCFM as part of this decision.