

Consultation

RIIO-2 Informal Licence Drafting Consultation

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We are consulting on our proposed modifications to the licence conditions required to implement the RIIO-ET2, RIIO-GT2 RIIO-GD2 and RIIO-ESO price control settlements.

Within this document, we outline our proposed licence changes together with the reasons why we propose to make these changes and their intended effect. The proposed draft licence conditions are set out in Annexes to this consultation.

This document outlines the scope and purpose of the consultation, questions and how you can get involved. Once the consultation is closed, we will consider all responses.

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1. Introduction

Section summary

This section sets out what we are consulting on and the approach that we have taken to licence drafting for RIIO-2.

Approach to licence drafting questions

- Q1. Do you have any views on the RIIO-2 licence drafting principles, set out in Appendix 1?
- Q2. Do you have any views on the definitions and the defined terms set out in the Annex?

What are we consulting on?

- 1.1 We are consulting on our proposed modifications to the licence conditions required to implement the RIIO-ET2, RIIO-GT2, RIIO-GD2 and RIIO-ESO price control settlements for all of the gas and electricity transmission licensees and gas distribution networks (GDNs) and electricity system operator. These conditions would apply from 1 April 2021. We will carry out a further statutory consultation in December.
- 1.2 The licence amendments that we have presented in this document are reflective of the decisions set out in the Sector Specific Methodology Decision (SSMD)¹ and our consultation position in Draft Determinations (DD)², unless otherwise indicated. Some elements of the licence cannot be finalised until corresponding policy decisions are made. Where this is the case, provisional or placeholder content may be square-bracketed.
- 1.3 These conditions are working drafts and we recognise that further work may be required to ensure that the conditions appropriately reflect our consideration of RIIO-2 DD responses and Final Determinations that will be published later in the year. There are also some licence conditions that have not been included in this

¹ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

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

consultation, but will require consideration before the consultation in December. We have indicated where this is the case.

1.4 This four-week consultation is an opportunity for stakeholders to provide views on our working drafts of the proposed licence changes.

1.5 This consultation does not apply to the Electricity Distribution licences. There will be a separate licence drafting process for RIIO-ED2.

Timetable

Table 1.1: Remaining stages of the licence modification process

Stage	Date
Informal consultation closes	28 October 2020
Final Determinations and 28-day statutory licence modification consultation published	December 2020
Licence modification decision published	February 2021
Licence changes come into effect	01 April 2021

Types of Licence Conditions

1.6 For the most part, we are proposing changes to the following licences only³:

- 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
 - Wales and West Utilities Limited
 - Scotland Gas Networks
 - Southern Gas Networks
 - Northern Gas Networks Limited.
- For RIIO-ESO - the National Grid Electricity System Operator (NGESO).

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

³ Note that Standard Licence Conditions may apply to licensees other than those listed.

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. Where this is the case we will only present one draft condition in this consultation, although it will be added to the SpCs of each licensee. 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.

Types of changes to Licence Conditions

- 1.12 The proposed licence modifications generally fall into four categories:
- Amendments to a current licence condition to reflect RIIO-2 policy.
 - Addition of a new licence condition for RIIO-2 to reflect new policies.
 - Close out of a RIIO-1 scheme.
 - Removal of a RIIO-1 licence condition that is not needed for RIIO-2 (e.g. because the policy is no longer applicable).
- 1.13 In the Annexes to this consultation we have set out:
- Amendments to the SLCs for ET and ESO, including track change where the licence conditions amend existing conditions.
 - Amendments to the SLCs and SSCs for GD and GT, including track change where the licence conditions amend existing conditions.

- The SpCs for each sector with no track changes.
- Those SpCs in each sector where we consider it useful to show a track change version from the RIIO1 licence. Where we have made structural changes, we may have made those first without tracking the change and then tracked the textual changes only to make it easier to digest.

Approach to licence drafting for RIIO-2

- 1.14 We created a RIIO-2 Licence Drafting Working Group (LDWG) in September 2019 consisting of members of the Ofgem team and network company representatives. This group meets regularly to review and develop the licence conditions. We may hold additional LDWG meetings between the publication of this consultation and the statutory consultation in December 2020.
- 1.15 We have created RIIO-2 licence drafting principles to ensure a consistent approach to all the licence conditions in RIIO-2. These general principles are set out in Appendix 1, and have as far as possible been applied to the licence conditions in the Annexes.⁴

Tracker and condition numbering

- 1.16 We have developed licence trackers to help the LDWG follow the development of the process across a range of areas, which include reference numbers to identify particular licence conditions.
- 1.17 For licence conditions that are relevant to both Electricity and Gas, we are using single trackers (cross sector and finance) to provide information on their development in one place. Where this is the case, we have assigned tracker reference numbers for each potential licence condition with the prefix CS or FT.
- 1.18 In this document, we have used the tracker reference numbers that correspond with those in our licence trackers to assist with identifying licence conditions. These tracker reference numbers are part of the management of the licence drafting process and do not reflect the actual condition number that will be assigned in the final version of the licence.

⁴In general, we have not made style changes to SLCs or SSCs.

Definitions

- 1.19 Each licence will contain a definitions condition at the start of the SpCs, which sets out the definitions used in those SpCs. The SLCs and SSCs also have definitions in them and some of these will also feature in the SpCs.
- 1.20 Defined terms are capitalised in the SpCs to make it clear to the reader when they should refer to the definitions section for further information.
- 1.21 We have provided the definitions in a master excel file in an Annexe to this consultation.

How to respond

- 1.22 The proposed licence conditions are set out in Annexes to this consultation. We welcome comments on the proposed drafting and the specific questions in this consultation.
- 1.23 Please use the Response Template in Annexe 1 to provide any substantive feedback on each individual licence condition. If you include a cover letter, please also ensure that any points in the cover letter are also made in the Response Template.

Your response, data and confidentiality

- 1.24 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose.
- 1.25 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential and explain why. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 1.26 If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.27 We will publish the number (but not the names) of confidential responses we receive. We won't link confidential responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.
- 1.28 Unless marked as confidential, we will publish responses on our website at www.ofgem.gov.uk/consultations.

General feedback

- 1.29 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
- Do you have any comments about the overall process of this consultation?
 - Do you have any comments about its tone and content?
 - Was it easy to read and understand? Or could it have been better written?
 - Were its conclusions balanced?
 - Did it make reasoned recommendations for improvement?
 - Any further comments?
- 1.30 Please send any general feedback comments to stakeholders@ofgem.gov.uk

2. Proposed new structure of the RIIO-2 Special Conditions

Section summary

This section sets out our proposed changes to the structure of the licence for RIIO-2.

These proposed changes will affect all SpCs and this chapter provides our objectives and reasons for the proposals.

Structure change questions

Q3. What are your views on the proposed changes to structure of the SpCs?

Structure of the special licence conditions following allowed revenue

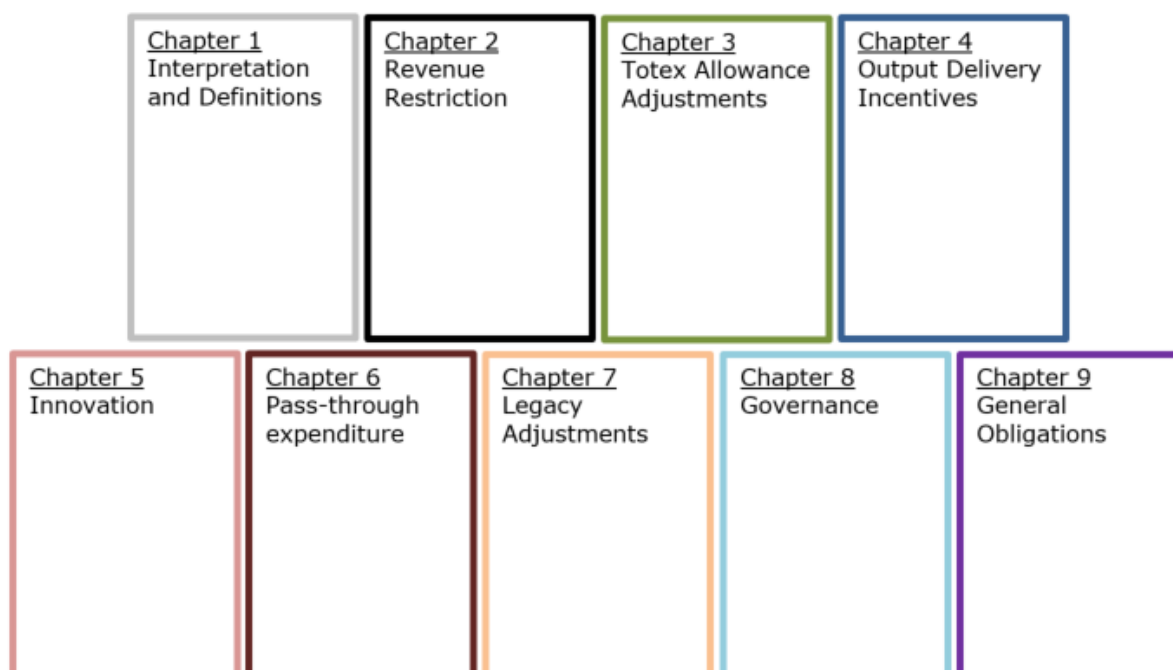
2.1 We think that there is merit in changing the structure of the SpCs in light of the substantial changes being made to them to introduce RIIO-2.⁵ We think that this will help improve navigation and help provide greater clarity on the types of regulatory mechanisms that will be implemented for RIIO-2.

2.2 Our proposed changes are threefold:

- Develop a consistent licence structure across sectors.
- Implement a licence structure that, as far as possible, mirrors the key components that make up a companies' revenue (for more detail on this, please see the next chapter).
- Using chapters to bring together regulatory mechanisms of a particular type.

2.3 Below we have set out the broad structure that we propose to use for the SpCs in RIIO-T2 and GD2. We intend to apply a similar structure to the ESO, with required modifications to reflect its streams of allowed revenue.

⁵ 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.



3. Associated Documents for RIIO-2

Section summary

This section sets out the Associated Documents that we intend to use as part of RIIO2, our principles for use and the timetable for implementing them.

Associated Documents question

- Q4. Do you agree with our principles for Associated Documents?
- Q5. Do you have any views on our proposed list of Associated Documents and the timetable for consulting and implementing them?

What are associated documents?

- 3.1 Associated Documents are documents created under the licence conditions that supplement those conditions and are subordinate to them.⁶ They are important for licensees participating within RIIO-2 schemes as they provide information, requirements and guidance that are not proportionate for inclusion in the licence conditions.
- 3.2 This section sets out our principles of use for Associated Documents. It also lists all the Associated Documents we expect to use in RIIO2, giving a summary of their content and indicating when we expect to consult on their content.

Associated Documents - Principles of use

- 3.3 These are the principles we propose should be used to govern when and how we use the licence to create Associated Documents.
 - Associated Documents must have a logical title, giving the reader a sense of what it will contain and use relevant words from the licence condition in the title.
 - The licence must set out whether the licensee is required to comply with an Associated Document, use best or reasonable endeavours to comply with it or

⁶ The Price Control Financial Model and Price Control Financial Handbook are not subordinate as they have the same status as the licence.

simply to have regard to it. The Associated Document may also contain other useful information that the licensee doesn't have to comply with.

- The licence must set out the circumstances in which the licensee has to comply with or have regard to the Associated Document, either by setting this out in a standalone paragraph or where this is very clear from the nature of the Associated Document.
- The relevant licence condition must set out clearly what the Associated Document will encompass.
- Associated Documents should only be used where more detail and explanation is required, beyond that in the relevant licence condition.
- There should be a clear division between Associated Documents such that they do not cover the same ground.
- The relevant licence condition must set out the change control process that applies to the relevant Associated Document.
- The licence does not need to say that there is no need to comply with an Associated Document that has not yet been created, as that is an impossibility.
- Obligations on licensees must be drafted clearly whether in the licence condition or the Associated Document, so licensees can be sure what is expected of them.
- Associated Documents must be published in a timely fashion bearing in mind the specifics of the Associated Document and the obligations in question.

List of Associated Documents for RIIO-2

- 3.4 For all Associated Documents we will aim to share a first draft with licensees and/or other stakeholders before carrying out the consultation required by the licence. The consultation under the licence will involve us publishing the document on our website and usually allowing a period of at least 28 days for representations to be made and considered, before bringing into force.
- 3.5 Some Associated Documents will not come into force until after the start of RIIO-2, generally this is the case where they relate to a RIIO-2 scheme that does not operationally start on the 1 April 2021.
- 3.6 Where Associated Documents are required on 1 April 2021, we expect to publish the first draft around the same time as this consultation or alongside the December 2020 consultation.

3.7 We are currently developing the content of the Associated Documents in specific working groups. The working groups occur as required and we will notify relevant licensees and stakeholders of when these occur and details for participation.

3.8 We intend to create the following Associated Documents in RIIO2:

Sector	Tracker Number or Licence condition	Associated Document	Summary of content	Expected publication of first draft	Expected date coming into force
ET+ESO GD+GT	CS20	RIIO-2 NIA Governance Document	Sets out eligible projects, reporting and other requirements companies must follow when undertaking projects, as well as process for recovering unrecoverable funds	December 2020	Start of RIIO-2
GD, ET, GT	CS10	Environmental Reporting Guidance	Sets out obligations in relation to preparing an Annual Environmental Report, including the timing of those reports, which the licensee must comply with.	December 2020	Start of RIIO-2
GD	SpC 3.8	VCMA Governance Document	Sets out eligibility criteria for projects and obligations on the licensee connected with projects, including reporting requirements and a requirement to host an annual showcase event.	October 2020	Start of RIIO-2
All	FT20	Price Control Financial Handbook	The Handbook has the same status as the licence. It consists of: a) a description of the Price Control Financial Model and the Annual Iteration Process; b) an overview of the Price Control Financial Model Variable Values; and c) details of how certain Variable Values are revised or calculated	September 2020	Start of RIIO-2
All	FT20	Price Control Financial Model	The Price Control Financial Model (PCFM) has the same status as the licence. It contains the PCFM Variable Values that are to be updated through the	September 2020	Start of RIIO-2

			Annual Iteration Process for the purposes of re-calculating Allowed Revenue. It also captures financial performance data for each regulatory year.		
All	FT21	PCFM Guidance	The PCFM Guidance will set out instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process.	Q1 2021	2021
GD	SpC 3.13	FPNES Governance Document	Sets out obligations, which the licensee must comply with, including obligations on eligibility and scheme requirements, including how to assess if gas is the best option for the household, and reporting.	October 2020	Start of RIIO-2
All	CS18	Strategic Innovation Fund Governance Document (may be separate ones for gas and electricity)	Sets out framework and process for running the RIIO-2 Strategic Innovation Fund, setting out what is eligible for funding, how Innovation Challenges will be set, projects evaluated and funding awarded, and obligations imposed in relation to projects after they are funded	Q1 2021	2021
ET	SpC 6.2	CPM Guidance	Sets out obligations in relation to making applications or submitting a report under the CPM licence conditions, which the licensee must comply with.	December 2020	Start of RIIO-2
All	CS32	RIGs and RRP templates	Set out the reporting requirements for Ofgem to collect accurate and consistent information from the network operators.	December 2020	Start of RIIO-2
GD, ET, GT	CS33	Data Assurance Guidance	Sets out the reporting obligations for DAG to reduce the risk to consumers for any	December 2020	Start of RIIO-2

			inaccurate reporting and misreporting by licensees.		
All	CS37	Digitalisation Strategy and Action Plan Guidance	Sets out obligations in relation to preparing and updating a Digitalisation Strategy and Digitalisation Action Plan, including the intervals for reviews, which the licensee must comply with.	Q1 2021	2021
All	CS37	Data Best Practice Guidance	Sets out best practices for the capture and use of data, which the licensee must use best endeavours to comply with.	Q1 2021	2021
GD	SSC D21	Fair Treatment Guidance	A guide to inform licensees' understanding of the principles-based Licence Obligation. Not intended to add new requirements	Q1 - Q2 2021	2021
GT	SpC 3.11	Funded Incremental Obligated Capacity Re-opener Guidance	Sets out obligations in relation to making a submission under this re-opener, which the licensee must comply with.	December 2020	Start of RIIO-2
ET	SpC 7.8	Environmental Discretionary Reward Scheme Guidance	A guide to inform licensees' understanding of Environmental Discretionary Reward criteria.	December 2020	Start of RIIO-2
ET	SpC 3.20	LOTI Guidance	Sets out obligations in relation to making applications, seeking approval and making submissions under this licence condition, which the licensee must comply with.	December 2020	Start of RIIO-2
GD and GT	SSC A57	ECP Guidance	Sets out the enhanced obligations in relation to the efficient allocation of NTS Exit Capacity, which the licensee must comply with.	December 2020	Start of RIIO-2
ESO	SpC 4.3	ESORI Arrangements Guidance	Sets out obligations in relation to reporting against deliverables and the Business Plan, which the licensee must comply with.	September or October 2020	Start of RIIO-2

ESO	SLC C24	Roles Guidance	Provides further explanation of the ESO's roles and the associated behaviours, which underpin the ESO's regulatory framework.	September or October 2020	Start of RIIO-2
GD, ET, GT	CS7	Re-opener Guidance and Application Requirements Document	<p>Sets out obligations in relation to applying for re-openers, which the licensee has to comply with.</p> <p>We are prioritising guidance for re-openers that commence at the start of RIIO-2 and so we expect to include in our first draft the following chapters:</p> <ul style="list-style-type: none"> • Overarching section • Cyber IT and OT • BAU IT 	October 2020	Start of RIIO-2
GD, ET, GT	CS41	Price Control Deliverable Reporting Requirements and Methodology Document	<p>Sets out obligations in relation to preparing annual PCD reports, which the licensee must comply with.</p> <p>Sets out the methodology the Authority will use to assess PCD delivery.</p>	December 2020	Start of RIIO-2

4. Proposed changes to the Finance related licence conditions and associated documents

Section summary

This section sets out finance related changes that we are proposing to make throughout the SpCs, that are mainly driven by changes we propose to make to the revenue restriction condition and the changes we are proposing to finance related conditions.

Finance related questions

- Q6. What are your views on the proposed changes to the SLCs, SSCs and SpCs outlined in this finance chapter?
- Q7. Do you agree with our reasons for making the proposed finance related changes that will have effect throughout the SpCs?
- Q8. What are your views on the detail of the finance related changes that we have proposed? Are the new concepts such as allowed and calculated revenue clear?
- Q9. What are your views on the proposal to replace the MOD term?
- Q10. Would you support a consolidated K/ADJ term if the interest rate being applied was the same in both cases (eg both WACC or both short term cost of debt based)?
- Q11. Will the changes proposed to AIP, and the other changes proposed in this chapter, work with the charging arrangements that exist for each licensee and sector? Or are any further modifications required?
- Q12. Do you support moving towards a required 'self publication' of allowed revenue aligning with any tariff setting, as opposed to one as a result of the AIP process? What process would you propose?
- Q13. Do you feel it is necessary for the licence to contain algebra for ADJ and K, or is it sufficient to have the calculations contained in the PCFM and explained in the PCFM Handbook?
- Q14. Do you think FT35 should remain in the SLCs/SSCs or be moved to the Special Conditions?
- Q15. Do you agree with our proposal to make the recovery penalty upper and lower bounds consistent for all licensees?
- Q16. Do you agree with our proposals relating to DRS? Do you see merit in clarifying and documenting the mechanisms behind each category of DRS and in particular do you have a view on how the various elements of DRS

expenditure and revenue are reported, how they are treated within the price control and whether they are included within Allowed Revenue.

Q17. Do you agree with our proposal to retain the allocation of costs and revenues condition (FT35) for the Gas sectors? Do you agree with the proposal to apply this condition to the ET and ESO sectors? If so, do you have a view on the business activities that costs and revenues should be attributed across and if not, are there any reasons that this condition should not apply to ET and ESO licensees?

Q18. Do you agree with our proposals relating to DRS? Do you see merit in clarifying and documenting the mechanisms behind each category of DRS and in particular do you have a view on how the various elements of DRS expenditure and revenue are reported and how they are treated within the price control?

Why are we making changes?

4.1 There are three main reasons for the finance related changes that we are proposing to make throughout the SpCs:

- Firstly, we want to remove duplicative text from the licence e.g. 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.
- Secondly, we want to consolidate the various financial instruments⁷ and reporting templates, so that the Price Control Financial Model (PCFM) will contain all the information required to calculate allowed revenue.
- Thirdly, we want to simplify the drafting and have consistency across the sectors to make the licence easier to read and use.

4.2 Reason and effect for proposed finance related changes to the Special Conditions. The revenue restriction⁸ condition in each sector determines the level of maximum allowed revenue that may be recovered by network companies through their

⁷ 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.

⁸ Current condition number: SpC 1B (Gas Distribution), 2A (Gas Transmission TO), 3A (Gas Transmission SO), 3A (Electricity Transmission TO and ESO). Finance Tracker reference, FT3+5.

charges. The calculation is broadly similar across sectors in terms of its structure and intended outcome.

- 4.3 We propose a number of changes to these conditions, many of which will affect the drafting of the entire licence and have led to the addition of several new licence conditions.⁹

We have set the changes out under the sub-headings, below.

Notation, variable hierarchy and principal formula

- 4.4 The revenue restriction formula sets out the amount of allowed revenue that may be recovered through charges.
- 4.5 We think it is clearer to define the two following variables separately. The first will focus on calculating revenue generically, and the other a process for setting charging restrictions ex-ante.
- Calculated Revenue (R), is a 'live' calculation of real revenue allowances in accordance with the licence. It is not fixed to represent base revenue at final determinations but stands on its own as the method for calculating allowed revenue, either ex-post or ex-ante.
 - Allowed Revenue (AR) takes the *calculated* revenue using data at the preceding AIP, plus a catch-up for historical revisions and charging over/under-recovery. This value is published at each AIP.
- 4.6 The adjustments for revisions and corresponding annual iteration process cover the process of setting overall revenues from year to year (AR), while the remainder of the licence is focused on determining 'ex-post' Calculated Revenue (R).
- 4.7 The benefit of this is to allow most of the licence algebra to be genericised in terms of ex-ante or ex-post calculations (and as a result they will not need individual true-up calculations, simplifying them).

⁹ The new licence conditions in the annexes that relate to these changes and the Finance Tracker reference FT3 and FT22 are: 2.1-2.3, 4.1 and 5.1 in the ET SpCs; 3.1, 4.1, 4.2, 4.4 in the ESO SpCs; 2.1-2.3, 2.5-2.7, 4.1 and 5.1 in GT SpCs; and 2.1-2.3, 4.1, and 5.1 in the GD SpCs.

4.8 The effect of this change to the drafting is that references to years t-1, t-2 or t-3 will typically be replaced with the generic year t¹⁰. This is a notational change, and does not necessarily change the practical process, or affect charging volatility. For example, an incentive would set out a generic calculation, which would be the same regardless of whether it represents:

- Actual historical performance.
- A forecast of performance.
- An assumption corresponding to zero financial impact.

4.9 All licence conditions in this consultation have been drafted in this 'live' style.

ADJ term

4.10 In RIIO-1, the term 'MOD' (for 'modification') refers to a modification of an upcoming base revenue, reflecting new historical information being submitted and revisions to allowances. For revenues not part of the price control financial model, the licence provides the necessary adjustments to reflect these ex-post changes via the Revenue RRP.

4.11 We are proposing to replace RPI inflationary and time value of money adjustments that are part of the MOD throughout the licence algebra with a single adjustment that incorporates all these true ups as part of maximum allowed revenue.

4.12 We also propose that the current concept of MOD, in its RIIO-1 inception, would be replaced. In RIIO-1, MOD refers to changes from final determinations to the AIP in question. We propose to implement an annual adjustment to reflect any revision of historical inputs from the *previous* AIP to the *current* AIP.

4.13 This adjustment would calculate a true up for any year where charges have already been set, based on a resubmission of all years from the first year of RIIO-2 to the end of the price control, with the best information available at that time.

4.14 The effect is to make the adjustments reflect iterative updates rather than changes from final determinations, which seems more appropriate for an annual iteration process.

¹⁰ There are some licence conditions that still require -1, -2 etc. to differentiate between different years within that formula. These have remained.

4.15 It is worth noting that if the interest rate applied for the ADJ and K correction term is the same, it is not necessary to have distinct calculations for ADJ and K (discussed below). This may further simplify the drafting if adopted.

K correction term

4.16 We are not proposing changes to the basic operation of the K correction factor term. The drafting presented in the Annexes proposes an alternate formula construction of the K correction term, to separate more distinctly the penalty for material over/under recoveries. The drafting is intended to increase clarity, but not change the effect.

Recovery Penalty

4.17 We are not proposing to change the way that the recovery penalty element of the K correction term operates in the GD and GT sectors.

4.18 We propose to standardise the upper and lower bounds for the recovery penalty across the GD, ED and GT sectors. In RIIO-1 the bounds were as follows:

- 6% either side of Allowed Revenue for ED and GD.
- 5.5% either side of Allowed Revenue for NGET.
- 4% either side of Allowed Revenue for GT, SPT and SHET.

4.19 We are proposing a 6% threshold for over or under-recoveries of allowed revenue for GT and GD in RIIO-2, for simplicity and consistency between the sectors. In our TNUOS cashflow timing decision letter¹¹, we announced our intent to remove the penal rate of interest for the ET sector.

Standardising across sectors

4.20 We are proposing to standardise a number of terms and definitions in the licence that currently differ across sectors, but which define the same activities.

4.21 The changes are:

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/transmission-network-use-system-tnuos-cashflow-timing-consultation>

- Using the term Regulatory Year to refer to the financial year period, consistent with the Electricity Distribution licences instead of Formula Year or Relevant Year.
- Creating the new term “Licensed Activity”, to replace terms like: “Distribution Network Transportation Activity”. The sector specific nature is then moved to the definition of “Licensed Activity”.
- Creating the new term “Calculated Revenue” to replace terms like: “Transportation Activity Revenue”.
- Creating the new term “Network Charges” to replace sector specific terms like “Distribution Network Transportation Charges”.

4.22 The effect is to bring in consistent terminology across the different licensees and sectors and reducing repetition, making the licences more accessible.

Consolidating Financial Instruments and reporting tools

4.23 We use a number of Financial instruments and reporting tools to run and monitor the price control. These all play a part in the governance of the RIIO framework and all stem from the licence so we want to clarify the purpose of each and remove the duplication between them in light of the proposed licence restructure.

Interaction with the Regulatory Instructions and Guidance (RIGs)

4.24 The RIGs comprise a suite of Excel templates and the associated guidance documents that we update each year to enable us to collect data from the network companies during the price control.¹² We collect data to enable us to administer the SpCs, which include monitoring expenditure performance and compliance with price control obligations.

4.25 The Revenue Regulatory Reporting Pack (RRP) and the Regulatory Financial Performance Reporting (RFPR) model are two templates that are currently submitted to us as part of the RIGs submissions made each 31 July. As noted above, with the exception of the detailed debt and financing data tables in the

¹² Latest GT1 RIGs: https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-gt1_-_regulatory_instructions_and_guidance_6.2_clean.pdf
Latest ET1 RIGs: https://www.ofgem.gov.uk/system/files/docs/2019/04/2018-19_riio-t1_electricity_transmission_rigs_v6.2.docx
Latest GD1 RIGs: https://www.ofgem.gov.uk/system/files/docs/2019/07/riio-gd1_gas_distribution_rigs_version_6.0.pdf

RFPR, we propose to remove these templates from the RIGs suite of templates and include them within the PCFM so that they are no longer stand-alone.

- 4.26 We are also proposing to remove the Revenue RRP and RFPR Guidance documents from the RIGs and combine them into a separate Associated Document, which we will refer to as the PCFM Guidance.
- 4.27 The PCFM Guidance will also contain additional instructions on how to populate the PCFM Variable Values to reflect the fact that network companies will populate and submit the PCFM to us for the first dry run of each AIP.
- 4.28 The reason for removing the Guidance from the RIGs is to ensure consistency between the Guidance and the templates, which will no longer be subject to the RIGs condition once they are included in the PCFM.

Price Control Financial Model

- 4.29 We are proposing that the PCFM will remain as a Licence Instrument subject to its own change control processes¹³ but will expand in scope to include the calculations of the Revenue RRP and the RFPR, under our proposals. As such the separate templates will no longer be required and network companies will simply be required to fill out the relevant tabs within the expanded PCFM.

Price Control Financial Handbook

- 4.30 We're proposing that the handbook will remain as a Licence Instrument subject to its own change control processes¹⁴.
- 4.31 The RIIO-1 handbook contains a description of and instructions for how to carry out some of the steps of the AIP and the detailed process around modifying and running PCFM. It also contains the detailed methodologies for determining the PCFM Variable Values.
- 4.32 In moving towards a process where licensees populate and submit the PCFM, there will be a need for detailed instructions and guidance around the inputs to and submission process for the PCFM. We think this would best be included in a new Associated Document: the PCFM Guidance (see Chapter 3), rather than the handbook. Notwithstanding, we propose that detail on the governance of the

¹³ We are proposing to amend the process, as discussed further below in relation to FT20.

¹⁴ We are proposing to amend the process, as discussed further below in relation to FT20.

PCFM and of the AIP (subsequent to licensees submission of the PCFM) be included in the handbook.

- 4.33 We propose that the handbook identifies all Variable Values, providing cross references to further information (eg SpC and Associated Documents) for each, but will not necessarily include methodologies for all Variable Values. For example, we will not include methodologies in the handbook for Variable Values that are adequately described in SpCs and RIGs. We propose that the handbook will include methodologies for the Variable Values that Ofgem provides (e.g. in relation to the cost of capital) and for other Variable Values where details in addition to the SpCs would be beneficial. The proposed handbook drafting for RIIO-2 is included in the relevant Annexes to this document.

Reason and effect for proposed changes to Finance Special Conditions

- 4.34 There are a number of finance-related SpCs that are common to all sectors. We refer to these as “finance licence conditions”. This chapter explains the changes to the finance licence conditions, why we are making those changes and their effect.

FT20 Governance of Price Control Financial Instruments	
Type of change	Amendment to existing licence condition ¹⁵
RIIO-1 licence condition name	Governance of Price Control Financial Instruments
Relevant licensees/relevant sectors	All
Associated document	PCFM and PCFH

- 4.35 The purpose of this condition is to establish the change control framework for the Price Control Financial Model and the Price Control Financial Handbook, collectively referred to as the Price Control Financial Instruments.
- 4.36 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, as outlined earlier in this document. The effect of the proposed changes is to update the condition and remove references to the Price Control Financial Methodologies from the current drafting.

¹⁵ This is condition 8.1 in the ET, GT and GD SpCs. This is condition 5.1 in the ESO SpCs.

4.37 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. The effect of the proposed changes is to extend the factors that we will consider 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. Licensees will still be able to put forward their views on the modification and the use of the self-modification power through the Price Control Financial Model Working Group and/or during the consultation period required by the licence¹⁶.

FT21 Annual Iteration Process for the Price Control Financial Model	
Type of change	Amendment to existing licence condition ¹⁷
RIIO-1 licence condition name	Annual Iteration Process for the Price Control Financial Model
Relevant licensees/relevant sectors	All
Draft determination reference	DD Finance Annex paragraph 11.49-11.53
Associated document	PCFM Guidance

4.38 The AIP is the formal process of updating the PCFM Variable Values to calculate the annual incremental change or "MOD", to Base Revenues¹⁸ 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.

4.39 We are proposing changes to this condition and have set the reason and effect of these out under sub-headings, below.

AIP will cover total Allowed Revenue

4.40 We are proposing that the PCFM for RIIO-2 should contain all of the components of Allowed Revenue and not just the Base Revenue and MOD elements as is currently the case. Under such a framework, the PCFM would contain all of the

¹⁶ Other stakeholders will also be able to respond to that consultation.

¹⁷ This is condition 8.2 in the ET, GT and GD SpCs. This is condition 5.2 in the ESO SpCs.

¹⁸ 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.

calculations that are in the licence and its output would be total Allowed Revenue. Allowed Revenue would therefore be the most meaningful value for us to publish by 30 November in each regulatory year.

- 4.41 The effect of this change is to amend the focus of the AIP from the MOD to Allowed Revenue.
- 4.42 The exception to this is the ESO, which has three separate revenue streams and three separate revenue restriction conditions. These are Transmission Network Revenue (TO), System Operator Internal Revenue (SOIAR) and Balancing Services Activity Revenue (BXext). We propose that the SOIAR is the only revenue stream that will be subject to AIP. The reason for this is because the three revenue streams are different in nature and so it is not meaningful to combine them and subject them all to AIP. The TO and BXext revenue streams are effectively pass-through revenue terms, which we propose can be reported through annual submissions rather than be updated through AIP.¹⁹ This is also closer to how the AIP currently works for the ESO in RIIO-1 and so we propose that this is the most intuitive and consistent approach for RIIO-2.

Publishing rather than directing Allowed Revenue

- 4.43 We propose that it should no longer be necessary for Ofgem to direct the outcome of the AIP. 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. At the end of the AIP, Allowed Revenue will be a product of the updated Variable Values and therefore is calculated in line with a pre-determined methodology.
- 4.44 There are some Variable Values that can be adjusted by the Authority by direction. Where that is the case the process for direction will be set out in the individual licence conditions.
- 4.45 We propose that it would be more appropriate to refer to a “publication” rather than a “direction” of Allowed Revenue at the end of each AIP and this is the effect of the proposed changes. Publishing the value of Allowed Revenue would signal

¹⁹ Under the proposal for the PCFM to replace the Revenue RRP, reporting of TO and BXext would be via a modified PCFM but not necessarily through the Variable Values Table

that the Authority is comfortable with the final recalculated value for Allowed Revenue following the AIP for each regulatory year.

Streamlining the steps of the AIP

- 4.46 Under the current framework, the PCFM contains only some of the components of Allowed Revenue (Base Revenue and MOD) with the other elements reported in the Revenue RRP, which network companies submit to us by 31 July. A separate RFPR template recording forecast information and expenditure performance is also submitted on the same date.
- 4.47 Once received, the data from these submissions is manually input into the PCFM, which is then updated through a number of trial or "dry runs" taking place from September until MOD is directed in November.
- 4.48 As we are proposing that the PCFM should include the calculations currently held in the Revenue RRP and the RFPR, there will no longer be a need for them to exist as stand-alone models. Instead, we propose that the PCFM is updated and sent to us by 31 July of each regulatory year, which would capture all the required information.
- 4.49 This submission would then act as the first dry run for the AIP, thereby streamlining the process and giving stakeholders an early, indicative view of the financial position of the regulated network companies.
- 4.50 The effect of the changes is to require the licensees to input the PCFM Variable Values and amend the steps of the AIP.

The AIP will inform tariff-setting

- 4.51 We propose that the value of Allowed Revenue published at each AIP is the value that should be used for charging purposes. Our licence drafting reflects this approach: in FT3, the ART term is defined with reference to the AIP.
- 4.52 The alternative would be to adopt an entirely "live" approach to calculating ART, allowing licensees to change their variable values and update their forecasts in order to recalculate the value of ART between the publication of the AIP and the setting of tariffs. Under this approach the value of ART used for charging purposes would differ from that published at the latest AIP in that it would contain updated forecasts or the latest Ofgem decisions.

4.53 We propose to peg the value of ART to that which is published at each AIP to give networks and other stakeholders early visibility of the value, which will aid in predictability of charges. As well as this, we consider aligning the outcome of the AIP and the values used for charging to be more intuitive and transparent.

PCFM Guidance

4.54 We are also amending this condition to introduce the PCFM Guidance as a new Associated Document, for the reasons discussed above.

4.55 The effect is 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.

FT18: Cross-sector pass-through items	
Type of change	Amendment to existing licence condition ²⁰
RIIO-1 licence condition name	Distribution Network/Calculation of allowed pass-through items
Relevant licensees/relevant sectors	All
Draft determination reference	DD Finance Annex paragraph 11.89-11.97
Associated document	PCFM Guidance

4.56 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

4.57 We propose to modify the pass-through licence conditions across all sectors 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. We propose that the Authority will retain the ability to adjust the amount of prescribed rates where the licensee has not used reasonable endeavours to minimise the amount of the prescribed rates to which it is liable.

²⁰ This is condition 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.

- 4.58 This is consistent with how pass-through costs for prescribed rates are currently treated in the electricity distribution licences.
- 4.59 The effect of the proposed modification is to allow licensees to treat prescribed rates as pass-through items without direction from the Authority.
- 4.60 We also propose to modify the pass-through licence conditions to change the term "business rates" to "Prescribed Rates". The reason for this change is to provide an overarching term for business rates in England and Wales, and non-domestic rates in Scotland.

Licence Fees

- 4.61 We have proposed amendments to the definition of the pass-through term for licence fees to reflect the RIIO-2 drafting principles and the finance related changes proposed in this chapter.

Bad Debt

- 4.62 There is no formal mechanism in any of the RIIO-1 Transmission SpCs to allow for the recovery of bad debts.²¹ SpC 1C in the current GD licence contains a miscellaneous pass through term, the other sectors do not. This is not a specific term for bad debt, but a more generic term, which requires a direction by the Authority.
- 4.63 We propose to introduce a bad debt term in the RIIO-2 licence to enable licensees to recover any bad debt costs incurred from the non-payment of network charges in a consistent and transparent way.
- 4.64 The process will involve setting a provisional allowance based on estimated values provided by the licensee, which would be trued-up in the following period based on actual bad debt costs reported.
- 4.65 The effect of this modification is to allow for the on-going recovery of bad debts costs incurred in a way that is consistent across sectors.

²¹ The recovery of bad debt should be net of any interest income accrued at the default interest rate set out in the relevant code.

FT35: Credit rating of the licensee and resulting obligations	
Type of change	Amendment to existing licence condition
RIIO-1 licence condition name	Standard Condition B10 (Electricity Transmission), Standard Special Condition A38 (Gas Transporter)
Relevant sectors	All
Draft determination reference	DD Finance Annex paragraphs 6.1-6.14
Associated document	NA

4.66 The purpose of this standard condition is to require licensees to maintain an investment grade issuer credit rating.

4.67 The reason for amending this condition is to ensure Ofgem is sent relevant information relating to licensee financial resilience and credit ratings (e.g. 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 of and plans for mitigating financial resilience challenges.

4.68 The effect of the modifications is to:

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

4.69 This consultation presents these licence conditions as part of the SLCs/SSCs. However, since these conditions relate to RIIO2, we are seeking views on whether they would more appropriately sit in Chapter 9 of the SpCs.

FT8 Directly Remunerated Services	
Type of change	Amended condition ²²
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	ET, GD, GT, ESO
Draft determination reference	Draft Determinations Finance Document, paragraphs 7.65-7.76
Associated document	NA

- 4.70 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).
- 4.71 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.
- 4.72 The modifications also standardise the numbering of the Directly Remunerated Services across the sectors subject to this consultation.
- 4.73 The effect of the amendment is to align DRS across the sectors.

FT14 Tax Reconciliation Assurance Statement	
Type of change	New special licence condition ²³
RIIO-1 licence condition name	N/A
Relevant licensees/relevant sectors	All
Draft determination reference	DD Finance Annex paragraph 7.48 - 7.52

- 4.74 The reason for introducing this condition is to give effect to our proposal in DDs to introduce a requirement for licensees to submit an annual board assurance statement that covers the Tax Reconciliation²⁴.
- 4.75 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

²² This is condition 9.7 in the ET, GT and GD SpCs. This is condition 2.9 in the ESO SpCs.

²³ This is condition 9.18 in the ET SpCs; 9.8 in the GT SpCs; 9.9 in the GD SpCs; 2.12 in the ESO SpCs.

²⁴ 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.

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, though a Tax Review (see below).

FT14 Tax Review Adjustment	
Type of change	New special licence condition ²⁵
RIIO-1 licence condition name	N/A
Relevant licensees/relevant sectors	All
Draft determination reference	DD Finance Annex paragraph 7.53 - 7.62
Associated document	NA

4.76 The reason for introducing this condition is to give effect to our draft determination proposal to introduce a Tax Review uncertainty mechanism.

4.77 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.

FT29 Allocation of revenues and costs for calculations under the price control	
Type of change	Amended condition ²⁶
RIIO-1 licence condition name	N/A
Relevant licensees/relevant sectors	GD and GT
Draft determination reference	NA
Associated document	NA

4.78 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

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

4.80 We are also considering applying these conditions to the ET and ESO sectors as a requirement to ensure that licensees appropriately allocate costs between business activities. We think this would be of value for all licensees, particularly for those that own multiple networks or have different business activities.

²⁵ This is condition 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.

²⁶ This is condition 9.9 in the GT SpCs; 9.10 in the GD SpCs.

FT22 Legacy adjustments	
Type of change	New special licence conditions ²⁷
RIIO-1 licence condition name	N/A
Relevant licensees/relevant sectors	ET, GT and GD
Draft determination reference	
Associated document	NA

4.81 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.

4.82 The effect of these conditions is to provide for the close out of RIIO1.

²⁷ These are conditions 7.1-7.6 in the ET SpCs; 7.1-7.5 and 7.9-7.12 in the GT SpCs; 7.1-7.5 in the GD SpCs; and 4.7 in the ESO SpCs.

5. 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 or the ET, GT and GD sectors. We refer to these common licence conditions as “cross sector licence conditions”. This chapter explains the proposed modifications to cross sector licence conditions, the reasons why we are proposing those changes and their effect.

Cross sector questions

- Q19. What are your views on the proposed changes to the SLCs, SSCs and SpCs outlined in this cross sector chapter?
- Q20. What are your views on the principles we have created for drafting PCD licence conditions?
- Q21. What are your views on the principles we have created for drafting re-opener licence conditions?
- Q22. Do you think the proposed new licence condition 'CS35 Housekeeping' should apply to the SLCs and SSCs or just the SpCs?

Reason and effect for proposed Cross Sector Licence Conditions

- 5.1 There is an overlap amongst the different types of licences held by the energy network companies. This means that some licence conditions are common across the ET, GT and GD sectors. For example, under the RIIO model, licensees in all three sectors have equivalent licence obligations with respect to regulatory reporting and data assurance. In some cases, these conditions also apply to the ESO.
- 5.2 While these common licence conditions are broadly similar in terms of structure, aim and intended effect, they are not identical across the sectors. Differences may apply on a sector wide basis or in relation to a particular licensee and, depending on the sector, the relevant common condition may appear as a SLC, SSC or SpC.

5.3 We have provided the sector specific drafting in the Annexes, but have set out their reason and effect here.

Price Control Deliverables

5.4 We have created drafting principles that we intend to apply to all Price Control Deliverable (PCD) licence conditions, subject to there being specific policy reasons for deviation.

5.5 We propose that a PCD licence condition will set out:

- The outputs a licensee is funded to deliver.
- The associated baseline allowances for delivering the PCD outputs.
- The delivery dates by which relevant outputs are to be delivered.
- Whether there are any enforceable licence obligations related to the PCD.
- Any re-opener related to the PCD.
- How allowances will be recovered for the non-delivery of outputs.

5.6 There are two ways in which allowances will be recovered:

- Mechanistic PCDs: licences will provide for allowances to be automatically recovered and set out the relevant formula.
- Evaluative PCDs: the licences will provide for allowances to be adjusted after the Authority has reviewed the delivery of the PCD outputs. The licence will provide for the adjustment and the detailed methodology will be set out in the PCD Reporting Requirements and Methodology Document.

CS41 Price Control Deliverable Reporting Requirements and Methodology Document	
Type of change	New special licence condition ²⁸
Relevant sectors	GD, GT & ET
Draft determination reference	Core Document paragraph 4.10
Associated document	PCD Reporting Requirements and Methodology Document

5.7 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

²⁸ This is condition 9.3 in the ET, GT and GD SpCs.

deliver, or not deliver, outputs and to establish the PCD Reporting Requirements and Methodology Document.

5.8 The effect of the condition is to:

- place a requirement on licensees to report to the Authority on the delivery of its evaluative PCDs in each Regulatory Year;
- establish the PCD Reporting Requirements and Methodology Document:
 - with which a licensee needs to comply when preparing its annual PCD reports; and
 - which sets out how the Authority will assess the delivery of evaluative PCDs; and
- set out the process the Authority will follow in issuing and amending the document.

CS2 Baseline Network Risk Output	
Type of change	New special licence condition ²⁹
Relevant sectors	ET, GT and GD
Draft determination reference	NARM Annex
Associated document	N/A

5.9 The reason for introducing this condition is to implement our proposal in DDs to have a Network Asset Risk Metric (NARM) Funding and Adjustment Penalty Mechanism.

5.10 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.

5.11 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 Final Determinations and in due course, in the RIIO-3 Financial Handbook.

CS6 Cyber Resilience operational technology Re-opener and Price Control Deliverable	
Type of change	New special licence condition ³⁰
Relevant sectors	ET, GD, GT

²⁹ This is condition 3.1 in the ET, GT and GD SpCs.

³⁰ This is condition 3.2 in the ET, GT and GD SpCs.

Draft determination reference	Core Document paragraphs 7.61-7.70
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

5.12 The reason for introducing this condition is to give effect to our proposal in our Draft Determinations to have a cyber-resilience OT³¹ PCD and to establish a re-opener relating to cyber resilience OT.

5.13 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; and
- set out reporting requirements for the licensee.

CS9 Cyber Resilience information technology Re-opener and Price Control Deliverable	
Type of change	New special licence condition ³²
Relevant sectors	ET, GD, GT
Draft determination reference	Core Document paragraph 7.61-7.70
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

³¹ Operational Technology are network and information systems that are considered necessary to the delivery of essential services, for example Supervisory Control and Data Acquisition Systems (SCADA).

³² This is condition 3.3 in the ET, GT and GD SpCs.

5.14 The reason for introducing this condition is to give effect to our proposal in our Draft Determinations to have a cyber-resilience IT³³ PCD and to establish a re-opener relating to cyber resilience IT.

5.15 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; and
- set out reporting requirements for the licensee.

CS8 Physical Security Re-opener and Price Control Deliverable	
Type of change	New special licence condition (PCD) / Amendment of current Re-opener condition (UM) ³⁴
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
SSMD reference	Core Document - Paragraphs 6.122 to 6.128
Associated document	Re-opener Guidance and Application Requirements Document and PCD Reporting Requirements and Methodology Document

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

5.17 The reason for replacing the current conditions is to give effect to our proposal in our Draft Determinations to have a physical security PCD (for NGET and NGGT),

³³ Information Technology are network and information systems that are used within business functions, for example word processing.

³⁴ This is condition 3.4 in the ET, GT and GD SpCs.

and to include within this condition a provision for a physical security Re-opener (for all networks).

The effect of the condition is to specify the outputs, delivery dates and associated allowances for the physical security PCD and to provide for an assessment of the PCD. The condition also establishes a re-opener to allow for the recovery of uncertain costs relating to changes to the government's Physical Security Upgrade Programme.

CS40 Consumer Value Proposition	
Type of change	New special licence condition ³⁵
Relevant sectors	ET, GD and GT
Draft determination reference	Core Document Paragraphs 10.71-10.87
Associated document	NA

- 5.18 The reason for introducing this condition is to calculate the revenue-adjusting terms that reflects the licensee’s performance regarding delivery of its Consumer Value Proposition (CVP).
- 5.19 This condition ensures that the licensee only retains CVP rewards where the related outputs are delivered during the price control period.
- 5.20 The effect of the condition is to introduce a reporting requirement for the licensee regarding delivery of its CVP, and enable the recovery of allowances (reward and identifiable associated costs) where the licensee fails to deliver the relevant outputs.

Re-openers

- 5.21 We have created drafting principles that we intend to apply to all re-openers in the price control, subject to there being specific policy reasons for deviation. These are based on the approach to common design parameters for re-openers set out in our Draft Determinations.
- 5.22 A re-opener is a licence condition that allows a licensee, or the Authority, to propose an adjustment to allowed revenue, usually with a very specific scope or

³⁵ 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.

an external trigger of some kind e.g. a change in government policy relating to a specific cost or policy area.

5.23 We propose that a re-opener licence condition will set out:

- the scope of the re-opener i.e. the circumstances in which the re-opener can be triggered;
- when an application can be made, which will ordinarily be one week and at the end of January in the relevant year;
- how an application should be made, including what information the licensee should provide, which will be supplemented by the Re-opener Guidance and Application Requirements Document;
- what costs can be included in an application; and
- who can trigger a re-opener i.e. the licensee and/or the Authority.

CS7 Re-opener Guidance and Application Requirements Document	
Type of change	New special licence condition ³⁶
Relevant sectors	ET, GT, GD
Draft determination reference	Cross Sector, paragraphs 7.22-7.23
Associated document	Re-opener Guidance and Application Requirements Document

5.24 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.

5.25 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.

CS11 Non-operational Capex IT Re-opener	
Type of change	New special licence condition ³⁷
Relevant sectors	ET, GT, GD
Draft determination reference	Core Document paragraphs 7.71-7.75
Associated document	Re-opener Guidance and Application Requirements Document

³⁶ This is condition 9.4 in the ET, GT and GD SpCs.

³⁷ This is condition 3.5 in the ET, GT and GD SpCs.

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

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

CS34 Net Zero Re-opener	
Type of change	New special licence condition ³⁸
Relevant sectors	ET, GT, GD
Draft determination reference	Core document paragraphs 8.16-8.38
Associated document	Re-opener Guidance and Application Requirements Document

5.28 The reason for introducing this condition is to give effect to our proposal to introduce a Net Zero reopener mechanism, as set out in the Draft Determinations.

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

CS12 Coordinated Adjustment Mechanism Re-opener	
Type of change	New special licence condition ³⁹
Relevant licensees/relevant sectors	ET, GD, GT
Draft Determination reference	Core Document, paragraphs 7.37 - 7.60
Associated document	Re-opener Guidance and Application Requirements Document

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

5.31 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 a more cost-effective opportunity has been identified.

³⁸ This is condition 3.6 in the ET, GT and GD SpCs.

³⁹ This is condition 3.7 in the ET, GT and GD SpCs..

General Obligations

CS1 Network Asset Risk Metric Methodology	
Type of change	Amendment to existing licence condition ⁴⁰
RIIO-1 number	SpC 2L for ET, SpC 4G for GD and SpC 7D for GT Methodology for Network Output Measures
RIIO-1 licence condition name	Regulatory Instructions and Guidance
Relevant licensees/relevant sectors	ET, GT, GD
Draft determination reference	NARM Annex
Associated document	N/A

- 5.32 This condition sets out the licensees' requirements in respect of the NARM Methodology and the process for modifying that methodology.
- 5.33 The reason for amending this condition is to update it for RIIO-2 to implement proposals in Draft Determinations on NARM, including on long-term risk and to clarify the NARM objectives.
- 5.34 The effect of this amendment is to require licensees to have and maintain a NARM Methodology and to align the requirements across the ET, GT and GD sectors.

CS32 Regulatory Instructions and Guidance	
Type of change	Amendment to existing licence condition
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

- 5.35 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.
- 5.36 We are proposing to amend this licence condition for two reasons. The first is to harmonise the structure of the condition across the relevant sectors, and present

⁴⁰ This is condition 9.2 in the ET, GT and GD SpCs.

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 introduce a provision to allow Ofgem to derogate.

5.37 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 requirement of the RIGs;
- introduce a new requirement providing the ability for Ofgem to derogate from RIGs. This aligns with the current provision applicable in the ED sector which allows derogation to be requested where a major catastrophic event materially restricts the ability of the companies to submit the RRP and meet the annual RIGs requirement; and
- introduce additional defined terms relating to this condition.

CS35 Interpretation and Definitions	
Type of change	Amendment to existing licence condition ⁴¹
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	NA

5.38 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.

5.39 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;
- 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) and the

⁴¹ This is condition 1.1 in all four sectors.

making of directions, consents, derogations, approvals, designations and determinations; and

- deleting provisions of general interpretation relating to definitions that are no longer required.

CS33 Data Assurance Requirements	
Type of change	Amendment to existing licence condition
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
Draft determination reference	NA
Associated document	Data Assurance Guidance

5.40 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.

5.41 The effect of the amendment is to align the reporting obligations in the relevant licence condition align with requirements set out in the Data Assurance Guidance document for all sectors.

CS10 Annual Environmental Report	
Type of change	New special licence condition ⁴²
Relevant licensees/relevant sectors	ED, GT and GD
Draft determination reference	Core document paragraphs 4.62 to 4.63
Associated document	Environmental Reporting Guidance

5.42 The reason for introducing this condition is to give effect to our decision in SSMD⁴³ 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 the licensees' progress against their Environmental Action Plan commitments.

5.43 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.

CS30 Close out of the RIIO-1 Network Outputs

⁴² This is condition 9.1 in the ET, GT and GD SpCs.

⁴³ Paragraphs 3.31-3.34 of the SSMD Core Document.

Type of change	Close out of existing RIIO1 condition ⁴⁴
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

5.44 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.

5.45 The effect is to close out the NOMs Incentive Mechanism⁴⁵.

CS37 Digitalisation	
Type of change	New special licence condition ⁴⁶
Relevant sectors	ET, GT, GD and ESO
Draft determination reference	Core document paragraphs 4.20 to 4.35
Associated document	Data Best Practice Guidance Digitalisation Strategy and Action Plan Guidance

5.46 The reason for this condition is to implement our proposals in DDs 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.

5.47 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 specified in the Digitalisation Strategy and Action Plan Guidance. The condition will also mean that licensees will be required to follow Data Best Practice Guidance when using Energy System Data.

CS35 Housekeeping

⁴⁴ This is condition 7.6 in the ET, GT and GD SpCs.

⁴⁵ NOMs Incentive Methodology, 6 December 2018: <https://www.ofgem.gov.uk/publications-and-updates/decision-network-output-measures-noms-incentive-methodology>

⁴⁶ This is condition 9.5 in the ET, GT and GD SpCs. This is condition 2.11 in the ESO SpCs.

Type of change	New condition ⁴⁷
Relevant sectors	ET, GT, GD and ESO
Associated document	NA

5.48 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 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.

5.49 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

CS13 Gas Network Innovation Strategy / Electricity Network Innovation Strategy	
Type of change	Amendment to existing licence condition
RIIO-1 number	Gas SSC A28, Electricity SLC B16
RIIO-1 licence condition name	Gas Network Innovation Strategy / Electricity Network Innovation Strategy
Relevant sectors	ET, GD, GT, ESO
SSMD reference	SSMD Core Document paragraphs 8.29-8.33
Associated document	NA

5.50 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.

5.51 The effects of the amendments proposed are to:

⁴⁷ In the Annexes we have included this as Standard Licence Condition B24 in ET and ESO and Standard Special Condition A56 in GD and GT.

- 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.

CS17 Innovation Roll-out Mechanism	
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
SSMD reference	SSMD Core Document paragraphs 10.24-10.30
Associated document	NA

5.52 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.

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

CS28 RIIO-1 Network Innovation Competition	
Type of change	Amendment to existing licence condition ⁴⁸
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
SSMD reference	SSMD Core Document paragraphs 10.31-10.46
Associated document	Gas Network Innovation Competition Governance Document / Electricity Network Innovation Governance Document

⁴⁸ This is condition 7.11 in the ET SpCs; 7.7 in the GT and GD SpCs; 3.3 in the ESO SpCs.

- 5.54 The reason for amending the current licence condition is to implement our proposal in DDs 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.
- 5.55 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 licence to ensure that these administrative functions are not compromised.
- 5.56 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.

CS19 The RIIO-2 Network Innovation Allowance	
Type of change	New special licence condition ⁴⁹
Relevant sectors	ET, GD, GT, ESO
Draft determination reference/SSMD reference	Draft Determination Core Document paragraphs 8.69-8.92
Associated document	RIIO-2 Network Innovation Allowance Governance Document

- 5.57 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.

The effect of this new licence condition is to state the level of NIA funding licensees will receive and establish the process for introducing the RIIO-2 NIA Governance Document.

CS20 Carry-over RIIO-1 Network Innovation Allowance	
Type of change	Amendment to existing licence condition ⁵⁰
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

⁴⁹ This is condition 5.2 in the ET, GT and GD SpCs. This is condition 4.5 in the ESO SpCs.

⁵⁰ This is condition 5.3 in the ET, GT and GD SpCs. This is condition 4.6 in the ESO SpCs.

Draft Determinations reference	Draft Determinations Core Document - paragraphs 8.93 - 8.96
Associated document	RIIO-1 Network Innovation Allowance Governance Document

- 5.59 The reason for the amendment is to implement our proposal in DDs to allow licensees to carry-over unspent RIIO-1 Network Innovation Allowance (NIA) funds from regulatory year 2020/21 into regulatory year 2021/22, for projects on which work commenced prior to 31st March 2021.
- 5.60 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 CS19.

6. 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 those changes and their effect.

Electricity Transmission Questions

- Q23. What are your views on the proposed changes to the SpCs outlined in this Electricity Transmission licence conditions chapter and the Annexes?
- Q24. Do you have any views on the definition of the Competent Authority in SpC9.13 Restriction on the use of certain information?

Reason and effect for proposed Electricity Transmission Licence Conditions

SpC 1.2 Amendments to the Standard Conditions for the purposes of this licence	
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	NA

- 6.1 The purpose of this condition is to remove reference to Special Condition 1C as having the effect of amending the Standard Licence Conditions.
- 6.2 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.
- 6.3 The effect of the amended condition is to improve the clarity of this condition.

Special Conditions Chapter 3 Totex Allowance Adjustments

SpC 3.8 Generation Related Infrastructure Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Draft determination reference	Draft Determination SPT Annex paragraph 2.32 Draft Determination SHET Annex paragraph 2.14 Draft Determination NGET Annex paragraph 2.33
Associated document	PCD Reporting Requirements and Methodology Document

6.4 The reason for introducing this condition is to give effect to our proposal in DDs to have a Generation Related Infrastructure PCD.

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

SpC 3.9 Shared Schemes Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Draft determination reference	Draft Determination SPT Annex paragraph 2.32 Draft Determination SHET Annex paragraph 2.14 Draft Determination NGET Annex paragraph 2.33
Associated document	PCD Reporting Requirements and Methodology Document

6.6 The reason for introducing this condition is to give effect to our proposal in DDs to have a Shared Schemes PCD.

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

SpC 3.10 Wider Works Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SHET, SPT
Draft determination reference	Draft Determination SPT Annex paragraph 2.32 Draft Determination SHET Annex paragraph 2.14 Draft Determination NGET Annex paragraph 2.33
Associated document	PCD Reporting Requirements and Methodology Document

6.8 The reason for introducing this condition is to give effect to our proposal in DDs to have wider works PCD.

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

SpC 3.11 Demand Schemes Price Control Deliverables	
Type of change	New condition
Relevant licensees/relevant sectors	NGET, SPT
Draft determination reference	Draft Determination SPT Annex paragraph 2.32 Draft Determination SHET Annex paragraph 2.14 Draft Determination NGET Annex paragraph 2.33
Associated document	PCD Reporting Requirements and Methodology Document

6.10 The reason for introducing this condition is to give effect to our proposal in DDs to have a Demand Schemes PCD.

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

SpC 3.12 Resilience and Operability Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	SPT, SHET
Draft determination reference	Draft Determination SPT Annex paragraph 2.32 Draft Determination SHET Annex paragraph 2.14 Draft Determination NGET Annex paragraph 2.33
Associated document	PCD Reporting Requirements and Methodology Document

6.12 The reason for introducing this condition is to give effect to our proposal in DDs to have a Resilience and Operability PCD.

6.13 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.

SpC 3.13 Visual Impact Mitigation Re-opener and Price Control Deliverable	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 6G
RIIO-1 licence condition name	Reopener to mitigate the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas
Relevant licensees	NGET, SPT and SHET
Draft determination reference	ET Sector Annex paragraphs 2.132 - 2.138
Associated document	N/A

6.14 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.

6.15 The reason we are changing this licence condition is to give effect to our decision in SSMD to change the implementation process by which the funding requests for smaller non-technical mitigation projects are submitted and approved. We said that the TOs would report on expenditure and activity related to the non-technical mitigation projects and would be able to recover the costs of the projects up to a defined amount.

6.16 The effect of the changes is to introduce:

- a new allowed expenditure adjustment term for non-technical mitigation projects;

- an annual calculation of the value of the new allowed expenditure adjustment term;
- an expenditure cap for the total value that a licensee can spend on non-technical mitigation projects during RIIO-ET2;
- to simplify the structure of the condition.

SpC 3.15 Operational Transport Carbon Reduction Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Draft determination reference	NGET Annex - paragraphs 2.34 to 2.54
Associated document	PCD Reporting Requirements and Methodology Document

6.17 The reason for introducing this condition is to give effect to our proposal in DDs that NGET should have a PCD for reducing carbon emissions from operational transport.

6.18 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.

SpC 3.16 Net Zero Fund Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	SPT
Draft determination reference	SPT Annex paragraphs 2.33 to 2.43.
Associated document	N/A

6.19 The reason for introducing this condition is to give effect to our proposal in DDs that SPT should have a PCD for a net zero fund on a use it or lose it basis.

6.20 The effect of the condition is to specify associated allowances for the PCD, to require SPT to publish information about its funding decisions, to require the licensee to submit an evaluation report, and to provide for an assessment of the PCD at the end of RIIO-2.

SpC 3.17 Net Zero Carbon Capital Construction Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Draft determination reference	NGET Annex - paragraphs 4.29 to 4.34
Associated document	N/A

- 6.21 The reason for introducing this condition is to give effect to our proposal in DDs that NGET should have a PCD for Net Zero carbon capital construction.
- 6.22 The effect of this condition is to specify the outputs and associated allowances for the PCD, to require NGET to submit a Net Zero Capital Construction evaluation report, and to provide for the assessment of the PCD, including a use-it-or-lose-it adjustment.

SpC 3.18 Generation Connection volume driver	
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/relevant sectors	NGET, SPT and SHET
Draft determination reference	ET Annex, paragraphs 4.25 - 4.21
Associated document	N/A

- 6.23 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.
- 6.24 The reason for amending this licence condition is to simplify the structure of the condition in order to present the various parts of it more sequentially.
- 6.25 The effect of the amendments is to maintain the overall mechanics of the method used in the calculation of allowances to remunerate licensees for works needed to reflect the level of outputs required, connect new generation customers to the national electricity transmission system (NETS) and reinforcement of existing local infrastructure in some cases, but to improve the clarity of the licence.

SpC 3.19 Demand Related Infrastructure volume driver	
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/relevant sectors	NGET, SPT and SHET
Draft determination reference	ET Annex, paragraphs 4.25 - 4.21
Associated document	N/A

- 6.26 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.
- 6.27 The reason for amending this licence condition is to simplify the structure of the condition in order to present the various parts of it more sequentially.
- 6.28 The effect of this condition is to maintain the overall mechanics of the method used in the calculation of allowances to remunerate licensees for works needed to reflect the level of outputs required, connect new demand customers to the NETS and reinforcement of existing local infrastructure in some cases, but to improve the clarity of the licence.

SpC 3.20 Large Onshore Transmission Investment Re-opener	
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
Draft determination reference	ET Annex, paragraphs 4.22 - 4.32
Associated document	LOTI Guidance

- 6.29 The current 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.
- 6.30 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-T1 and to implement our proposals in Draft Determinations, regarding TO obligations under the assessment process for LOTI projects, the types of project that LOTI is required for, and the definitions used within the condition.
- 6.31 The effect of the changes is to:
- re-order the different parts of the condition such that they are presented sequentially (i.e. 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 legislation 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.

6.32 We plan to issue LOTI Guidance by the start of RIIO-2, and will engage with industry on this guidance suitably ahead of this time.

SpC 3.21 Medium sized investment projects Re-opener and Price Control Deliverable	
Type of change	New licence condition
Relevant licensees/relevant sectors	NGET, SPT and SHET
Draft determination reference	ET Annex, paragraphs 4.46 - 4.61
Associated document	Re-opener Guidance and Application Requirements Document

6.33 The reason for introducing this condition is to give effect to our proposal in DDs to introduce the Medium Sized Investment Projects (MSIP) re-opener. This would enable the TOs to apply for funding for various sub-£100m investments that may be required during the price control period.

6.34 The effect of the condition is to establish a re-opener in Year 3 of RIIO-2, which would allow the TOs 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.

SpC 3.22 Pre-Construction funding Re-opener	
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

Draft determination reference	ET Annex, paragraphs 4.33 - 4.45 NGET, SPT and SHET
Associated document	Re-opener Guidance and Application Requirements Document

- 6.35 The current 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.
- 6.36 The reason for amending the current condition is to give effect to our proposal in DDs that the TOs should have a re-opener for recovery of efficient pre-construction expenditure incurred during the RIIO-2 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.
- 6.37 The effect of the condition is to establish a re-opener in Year 5 of the period where TOs can submit an ex post funding request for efficient expenditure on permitted pre-construction activities. 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.

SpC 3.23 Subsea Cable Re-opener	
Type of change	New licence condition
Relevant licensees/relevant sectors	SHET
Draft determination reference	SHET Annex, paragraphs 4.8 - 4.12
Associated document	Re-opener Guidance and Application Requirements Document

- 6.38 The reason for introducing this condition is to give effect to our proposal in DDs that SHET should have a re-opener for funding for the costs of subsea cable repairs on its network.
- 6.39 The effect of the condition is to establish a re-opener which would allow SHET to request funding for subsea cable repairs on its network that it is required to undertake.

SpC 3.24 Uncertain Non-Load Related Projects Re-opener and Price Control Deliverable	
Type of change	New Condition
Relevant licensees/relevant sectors	SPT
Draft determination reference	SPT Annex, paragraphs 4.8 to 4.12.
Associated document	Re-opener Guidance and Application Requirements Document PCD Reporting Requirements and Methodology Document

6.40 The reason for introducing this condition is to reflect our Draft Determinations proposal that SPT should have a re-opener for one or more specified non-load related projects.

6.41 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.

Special Conditions Chapter 4 - Output Delivery Incentives

SpC 4.2 Energy not supplied output delivery incentive	
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
Draft determination reference	ET Sector Annex, paragraphs 2.5-2.28
Associated document	N/A

6.42 The purpose of the current RIIO-1 condition is to calculate the term that adjusts the licensee's revenue to reflect its performance against its Energy Not Supplied (ENS) baseline target.

6.43 The reason for modifying the current licence condition is to give effect to our decisions in the SSMD and to our Draft Determination proposals to provide a process to amend the value of lost load (VoLL), to provide additional clarification on the ENS Incentive Methodology Statement and ENS Exceptional Events related obligation as they exist in the RIIO-1 licence condition, and to establish obligations with respect to Incentivised Loss of Supply Events.

6.44 The effect of the modifications is to:

- remove references to reliability in order to avoid confusion with references elsewhere in the licence and other influencing factors of reliability;
- 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.

SpC 4.3 Insulation and Interruption Gas emissions output delivery incentive	
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	ET
Draft determination reference	ET Sector Annex, paragraphs 2.124-2.131
Associated document	N/A

6.45 The purpose of the current RIIO-1 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.

6.46 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

6.47 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; and

- change the requirement for the methodology statement for the estimation of actual and expected leakage from IIGs.

SpC 4.4 Timely Connections output delivery incentive	
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
Draft determination reference	ET Sector Annex paragraphs 2.46-2.50
Associated document	NA

6.48 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.

6.49 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.

6.50 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.

SpC 4.5 Environmental Scorecard output delivery incentive	
Type of change	New condition
Relevant licensees/relevant sectors	NGET
Draft Determination reference	NGET Annex paragraphs 2.8 to 2.19
Associated document	NA

6.51 The reason for introducing this condition is to give effect to our proposal in DDs that NGET should have an environmental scorecard ODI.

6.52 The effect of the condition is to reward or penalise NGGT's performance in seven environmental areas compared to annual improvement thresholds.

Special Conditions Chapter 6 – Pass-Through

SpC 6.1 Pass-through items (PTt)	
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

- 6.53 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover.
- 6.54 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.
- 6.55 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.
- 6.56 For NGET’s pass through condition specifically, we have removed the terms LFT (licence fee payments) and ITCT (inter-transmission system operator compensation).
- 6.57 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.

SpC 6.2 Competition Proxy Model pass-through cost and Re-opener	
Type of change	New condition
Relevant licensees/relevant sectors	ET
Draft determination reference	Appendix 2 of Core document
Associated document	CPM Guidance document

- 6.58 The reason for introducing this new condition is to give effect to our proposals in DDs to allow for certain LOTI projects to be delivered under the Competition Proxy Model (CPM)⁵¹.

⁵¹ The CPM is a regulatory model that seeks to replicate the benefits of competition in the delivery of electricity transmission projects. The CPM works by benchmarking the allowed financing costs of electricity transmission projects at the level expected from an equivalent project subject to a competitive tender. Under the CPM, we would set a largely project-specific set of regulatory arrangements to cover the construction period and a 25-year operational period.

6.59 The effect of this new condition is to:

- provide for the Authority to direct that some or all assets constituting a LOTI becomes a CPM Project;
- establish a re-opener and pre-application requirements for the licensee to apply to the Authority for a CPM Project Assessment Direction setting outputs, delivery dates, allowances and other financial parameters for the CPM project;
- allow for these revenue allowances to be adjusted for the outcome of the Mid Construction Review, Post Construction Review and/ or Operational Cost Adjustment Event review;
- provides for the Authority's decisions to be made by direction, except in relation to the CPM Project Assessment decision which will be implemented under section 11A of the Electricity Act 1989.

6.60 This condition also establishes CPM Guidance.

SpC 6.3 Energy Not Supplied Compensatory Scheme pass-through	
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
Draft determination reference	SHET Annex, paragraph 2.7 Table 10
Associated document	N/A

6.61 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.

6.62 The reasons for amending the current licence condition are to give effect to our proposal in DDs 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.

6.63 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 in the methodology it will use to calculate compensatory payment amounts;

- require the licensee to review the ENS Compensatory Payment Methodology at least every two years;
- require the licensee to use best endeavours to apply the ENS Compensatory Payment Methodology
- require the licensee to use best endeavours to apply the ENS Compensatory Payment Methodology.

Special Conditions Chapter 7 - Legacy

SpC 7.2 Close out of the RIIO-ET1 pass-through items	
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
Associated document	N/A

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

6.65 The reason for this condition 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.

6.66 The effect is also to allow for the close out of the ICT and LfT terms in the ET price control.

SpC 7.7 Close out of the RIIO-ET1 Stakeholder Satisfaction Output	
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
Draft determination reference	ET Sector Annex paragraphs 2.12-2.95
Associated document	Stakeholder Engagement Reward Guidance

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

6.68 The reason 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.

6.69 The effect of the changes is to close out this incentive with any final payments to be made in regulatory year 2021/22.

SpC 7.8 Close out of the RIIO-1 adjustment in respect of the Environmental Discretionary Reward Scheme	
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
SSMD reference	ET Sector Annex paragraphs 3.253-3.261
Associated document	Environmental Discretionary Reward Scheme

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

6.71 The reason the modifications is because in the SSMD we decided to discontinue the Environmental Discretionary Reward in RIIO-ET2.

6.72 The effect of the changes is to close out this incentive with any final payments to be made in regulatory year 2021/22.

SpC 7.9 Close out of RIIO-ET1 Incentive in Respect of Sulphur Hexafluoride Gas Emissions incentive	
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

6.73 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.

- 6.74 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.
- 6.75 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.

SpC 7.10 Close out of RIIO-ET1 Reliability incentive in respect of Energy not Supplied (LRIt)	
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

- 6.76 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.
- 6.77 The reason for the modifications is to close out that incentive as the RIIO-T2 incentive will have different baseline targets.
- 6.78 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

SpC 9.9 Network Access Policy	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2J
Relevant licensees	SPT, NGET, SHET
SSMD reference	ET Sector Annex paragraphs 4.18-4.82
Associated document	NA

- 6.79 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.

6.80 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.

6.81 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.

SpC 9.10 Provision of Information to the System Operator	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2N
Relevant licensees	SPT, NGET, SHET

6.82 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.

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

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

SpC 9.11 Basis of Transmission Owner charges	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 8C
Relevant licensees	SPT, NGET, SHET

6.85 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.

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

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

SpC 9.13 Restriction on the use of certain information	
Type of change	Amendment to existing condition
RIIO-1 number	SpC 2B
Relevant licensees	SPT, SHET

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

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

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

SpC 9.14 Appointment of a Compliance Officer	
Type of change	Amendment to existing condition
RIIO-1 number	SpC 2H
Relevant licensees	SPT, SHET

6.91 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.

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

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

SpC 9.15 Independence of and appointment of managing director of the Transmission Business	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2I
Relevant licensees	SPT, SHET

6.94 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.

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

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

SpC 9.16 Prohibited Activities and Conduct of the Transmission Business	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 2C
Relevant licensees	NGET

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

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

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

SpC 9.17 Business Separation requirements and compliance obligations	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 20
Relevant licensees	NGET

6.100 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.

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

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

Removed conditions

SpC 1B Transmission Area	
Type of change	Amendment to existing licence condition
Relevant licensees	NGET, SHET, SPT
Associated document	NA

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

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

6.105 The effect of the amendment is to move definition of the Transmission area into Part B of SpC 1.1 (Interpretation and definitions).

SpC 2K: Electricity Transmission Losses reporting	
Type of change	Complete removal of a RIIO-1 condition

Relevant licensees	SPT, NGET, SHET
Draft Determinations reference	ET Sector Annex paragraphs 2.107
Associated document	N/A

6.106 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.

6.107 The reason we are modifying this condition is to give effect to our decision in SSMD⁵² 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 condition CS10 Annual Environmental Reporting.

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

SpC 3J Transmission Investment for Renewable Generation	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	NGET ⁵³

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

6.110 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.

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

⁵² Paragraphs 2.253 to 3.96 in the SSMD ET Annex.

⁵³ The amended version of this licence condition for the other ET licensees is not part of this consultation, but will be in the December consultation.

7. 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.

Electricity transmission and system operator questions

- Q25. What are your views on the proposed changes to the SLCs outlined in this Chapter and the Annexes.

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

Standard Licence Conditions

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

- 7.1 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').
- 7.2 The reason for the removal of this condition is that the 'offshore transmission implementation period' has now expired (means the period ending 18 months after offshore transmission go-active). Therefore, this condition no longer has any effect.
- 7.3 The effect of this deletion is to tidy up the licence by removing a redundant condition.

SLC B13 BETTA Implementation	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	NGET, SHET, SPT, ESO
Draft determination reference/SSMD reference	NA
Associated document	NA

7.4 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').

7.5 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.

SLC B14 BETTA run-off arrangements scheme	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	NGET, SHET, SPT, ESO
Associated document	NA

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

7.7 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.

SLC B12 System Operator - Transmission Owner Code	
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
Draft determination reference/	ESO Annex, 5.36-5.38
Associated document	NA

7.8 This condition sets out the requirement to have a System Operator Transmission Owner Code (STC).

7.9 Following the decision to reallocate the TNUOS cashflow risk away from the ESO to the onshore TOs⁵⁴, 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 NGET, SHET and SPT, proportionate to their share of onshore transmission owner revenue.

7.10 The effect of this amendment is to require the licensee to use its best endeavours to ensure terms are in place that facilitate its compliance with the requirements of this condition no later than 1 April 2021.

SLC C16 Procurement and use of balancing services	
Type of change	Amendment to existing condition
Relevant licensees	ESO
Draft determination reference	ESO Sector Annex, paragraphs 3.4-3.6
Associated document	NA

7.11 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.

7.12 We have amended this condition in order to broaden and clarify expectations on the ESO for RIIO2. This has involved the transfer of certain obligations from SLC C16 (e.g. those under paragraph 1) into a new standalone condition (see SLC C24 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.

7.13 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.

⁵⁴ 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>

SLC C24: Functions for an efficient, co-ordinated and economic electricity system operator	
Type of change	New condition
Relevant licensees	ESO
Draft determination reference	ESO Sector Annex paragraphs 3.4-3.7
Associated document	ESO Roles and Expectations Guidance

7.14 The reason for introducing this condition is to clearly and transparently set out the expectations of an economic, efficient and co-ordinated 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.

7.15 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.

8. 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.

Gas transmission and distribution questions

Q26. What are your views on the proposed changes to the SSCs outlined in this Gas Transmission and Gas Distribution chapter and the Annexes?

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	NA

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

8.2 The reason for the amendment is to:

- 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; and
- 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 A39⁵⁵.

⁵⁵ The paragraph we are deleting also features in the current version of SSC A38, however this is being redrafted as part of FT35.

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

SSC A36, A37 and A39 Alternative Definition of Licensee	
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	NA

- 8.4 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.

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

SSC A8 Emergency Services and Enquiry Service Obligations	
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
SSMD reference	Sector Specific Methodology GT Annex - Chapter 2
Associated document	NA

- 8.6 The current condition requires licensees to establish, operate and maintain an emergency response phone line.
- 8.7 The reason for the change is to implement the decision in SSMD to align the obligations in gas with those in electricity distribution.
- 8.8 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.

SSC A15 Agency	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	NA

8.9 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.

8.10 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).

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

SSC A15 Central Data Service Provider	
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	NA

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

8.13 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.

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

SSC A14, A31 and A48 Consequential changes to references to SSC A15 and A15A	
Type of change	Amended conditions
RIIO-1 number	SSC A14, A31 and A48
RIIO-1 licence condition name	Availability of Data Formats,

SSC A14, A31 and A48 Consequential changes to references to SSC A15 and A15A	
	Supply Point Information Service, Last Resort Supply: Payment Claims
Relevant sectors	GD and GT
Associated document	NA

8.15 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.

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

SSC A49 Designated Registrar of Pipes	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	NA

8.17 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.

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

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

SSC A51 Information to be Provided to a Designated Registrar of Pipes	
Type of change	Complete removal of a RIIO-1 condition
Relevant sectors	GD and GT
Associated document	NA

8.20 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.

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

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

SSC A57 Exit Capacity Planning	
Type of change	New condition
Relevant sectors	GD and GT
Draft determination reference	GD Annex paragraphs 2.241-2.250, GT Annex paragraphs 2.30-2.33
Associated document	ECP Guidance

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

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

9. 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.

Gas transmission questions

- Q27. What are your views on the proposed changes to the licence conditions as outlined in this chapter and in the Annexes.

Reason and effect for proposed Gas Transmission Licence Conditions

Special Conditions - Chapter 1: Interpretation and Definitions

SpC 1.2 Amendments to the Standard Special Conditions for the purposes of this licence	
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	NA

- 9.1 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).
- 9.2 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 whom SSC A3 applies and to clarify that the amendments only apply in relation to NGGT’s licence and not all GT and GD licensees to whom SSC A4 and SSC A5 apply.

9.3 The effect of the amended condition is to improve the clarity of this condition.

Special Conditions - Chapter 3: Totex Allowance Adjustments

SpC 3.8 Bacton terminal site redevelopment Re-opener and Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.309-3.315
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

9.4 The reason for introducing this condition is to give effect to our proposal in DDs 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.

9.5 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.

SpC 3.9 Compressor emissions Re-opener and Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.81-3.153
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

9.6 The reason for introducing this condition is to give effect to our proposal in DDs 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.

9.7 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.

9.8 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.

SpC 3.10 King's Lynn subsidence Re-opener and Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.329-3.333
Associated document	Price Control Deliverable Reporting Requirements and Methodology Document Re-opener Guidance and Application Requirements Document

9.9 The reason for introducing this condition is give effect to our proposal in DDs 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.

9.10 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, which will be a PCD output. 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.

SpC 3.11 Funded Incremental Obligated Capacity Re-opener and Price Control Deliverable	
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
Draft Determination	NGGT Annex - Paragraphs 4.5-4.22
Associated document	Guidance on the Incremental Obligated Capacity Re-opener

- 9.11 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).
- 9.12 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 consulted upon in our Draft Determinations.
- 9.13 This will be achieved via a re-opener PCD mechanism, which will replace the revenue driver in RIIO-T1. While the reopener was not described as a PCD within the Draft Determinations document, this has been drafted as a PCD as this includes outputs to which the licensee should be held to account for delivery.
- 9.14 We are also proposing to divide the content of conditions 5F and 5G differently, such that one condition (this condition - SpC 3.11) will be a re-opener covering entry and exit capacity, and a second condition (SpC 9.13) will cover 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 reopener & PCD aspects from the non-reopener processes and requirements. We are therefore also proposing to rename the two conditions.
- 9.15 The effect of the amendments to 5F and 5G as far as they relate to SpC 3.11 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.
- 9.16 The condition establishes the basis for the Funded Incremental Obligated Capacity Re-opener Guidance, which provides additional information on the process for applying for a direction to adjust allowed expenditure. This is an Associated Document to the licence.

SpC 3.12 Asset Health Re-opener	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.277-3.280
Associated document	Re-opener Guidance and Application Requirements Document

9.17 The reason for introducing this condition is to give effect to our proposal in DDs to allow for an adjustment to NGGT’s allowance for asset health work where costs are uncertain.

9.18 The effect of the condition is to establish a reopener 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 reopener window will also be used to assess whether changes are needed to the CS2 Baseline Network Risk Output and SpC 3.13 Asset Health – Non Lead Assets PCD.

SpC 3.13 Asset Health - Non Lead Assets Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.285-3.291
Associated document	Price Control Deliverable Reporting Requirements and Guidance

9.19 The reason for introducing this condition is to give effect to our proposal in DDs to set a PCD for asset health work on non-lead assets, as these fall outside of the remit of CS2 Baseline Network Risk Output.

9.20 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.

SpC 3.14 Redundant Assets Price Control Deliverable	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	GT Sector Annex paragraphs 3.342 to 3.356
Associated document	Price Control Deliverable Reporting Requirements and Guidance

9.21 The reason for introducing this condition is to give effect to our decision in the SSMD; to establish 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.

9.22 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.

SpC 3.15 Arrangements for the recovery of uncertain costs	
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
Draft Determination	NGGT Annex paragraphs 4.23 to 4.35
Associated document	Re-opener Guidance and Application Requirements Document

9.23 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

The reason for amending the current RIIO-1 licence condition is because our proposals for each of these areas has meant that they no longer logically fit together in the same licence condition. CS8 now captures Enhanced Physical Site Security Costs, SpC 3.9 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 6.59.⁵⁶

9.24 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.

⁵⁶ [Paragraph 6.59, table 6, of the SSMD GT Annex.](#)

Special Conditions - Chapter 4: Output Delivery Incentives

SpC 4.2 Customer Satisfaction Survey output delivery incentive	
Type of change	New condition
Relevant licensees/relevant sectors	NGGT
Draft Determination	NGGT Annex paragraphs 2.6 to 2.11
Associated document	NA

9.25 The reason for introducing this condition is to give effect to our proposal in DDs to have a Customer satisfaction survey ODI

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

SpC 4.3 Environmental Scorecard output delivery incentive	
Type of change	New condition
Relevant licensees/relevant sectors	GT
Draft Determination	NGGT Annex paragraphs 2.116 to 2.125
Associated document	NA

9.27 The reason for introducing this condition is to give effect to our proposal in DDs to have an environmental scorecard ODI.

9.28 The effect of the condition is to reward or penalise NGGT's performance in seven environmental areas compared to annual improvement thresholds.

SpC 4.4 Entry Capacity and Exit Capacity Constraint Management	
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
Draft Determination	NGGT Sector Annex paragraphs 2.48-2.71
Associated document	NA

9.29 The reason for the amendments is to give effect to our proposal in DDs to amend the Constraint Management incentive.

9.30 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 to remove revenue gained from scale back of interruptible and off-peak capacity, and removal of revenue from system entry overrun charges.

SpC 4.5 System Operator external incentives, costs and revenues	
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
Draft Determination	NGGT Sector Annex paragraphs 2.12-2.47; 2.72-2.115
Associated document	NA

9.31 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.

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

9.33 The effect of the amendments is to:

- Remove applicable revenue streams in respect of calculating the System Operator Output Delivery incentive term (SOODI_t).
- Remove the financial incentive revenue term for NTS Shrinkage (SIR_t), and include enhanced reporting obligations on the licensee around UAG, CVS and annual costs for shrinkage gas. This also involves editing and moving the obligations in licence condition 8E into this condition, and adding a transitional close-out condition from RIIO-GT1 to RIIO-GT2.
- Adjust baseline targets and amend calculation of the LPM and PPM mechanisms for the Residual Gas Balancing incentive, in line with the proposed reduced incentive caps and collars, and change of the LPM target during shoulder months.

- Remove 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 day ahead forecasting 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 caps and collars, and change to the venting equivalent factor proposed 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) into this condition.
- Introduce a licence term for the Maintenance incentive to reflect the new scheme element on alignment with customer workload for maintenance that excludes remote valve operations. We have made changes to calculation of the existing Maintenance incentive revenue terms to reflect the downside only incentive proposed for the RIIO-GT2 price control period. We have moved the licensee's obligations to report on the length of in-line inspections and obligations in respect of the provision of information related to maintenance planning – both of which previously existed in chapter 8 – into this condition.
- Move the licensee's obligations on Procurement of Operating Margins, previously in chapter 8, 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

SpC 6.1 Transportation Owner pass-through items	
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	NA

- 9.34 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover.
- 9.35 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.
- 9.36 The effect of the amendments is to add the PARCA termination value and to maintain that the transmission owner receives this PARCA termination value when appropriate.

SpC 6.2 Gas conveyed to Independent Systems	
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	NA

- 9.37 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 DN Operators and Relevant Shippers, with any difference between amounts recovered and passed through to consumers.
- 9.38 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.
- 9.39 The effect of the amendments is to improve its clarity.

SpC 6.3 System Operator pass-through items	
Type of change	New condition
Relevant licensees/relevant sectors	GT
SSMD reference	SSMD paragraph 6.57
Associated document	NA

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

9.41 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.

9.42 The effect of the condition is to

- establish the System Operator allowed pass-through term; and
- provide the means of adjusting CDSP Costs, excluding UK Link Gemini Costs.⁵⁷

Special Conditions - Chapter 7: Legacy Adjustments

SpC 7.8 Close out of the RIIO-GT1 Stakeholder Satisfaction Output	
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
SSMD reference	SSMD paragraphs 2.20 to 2.31 / 2.41 to 2.46
Associated document	NA

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

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

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

⁵⁷ Central Data Services Provider (CDSP), aka Xoserve, deliver services to gas suppliers, shippers and transporters, and ensure that Britain's retail gas market runs efficiently and reliably. UK Link Gemini is a suite of web applications for managing the transportation of gas through the pipeline network.

SpC 7.13: Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue	
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	NA

9.46 The RIIO-1 condition determines the financial upside/downside in relation to constraint management incentive revenue.

9.47 The reason for these modifications is to ensure CMIR_t 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.

9.48 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.

SpC 7.14: Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Cost Adjustment	
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	NA

9.49 The RIIO-1 condition determines the financial upside/downside in relation to constraint management cost adjustment.

9.50 The reason for these modifications is to ensure CMCA_t in Regulatory Years commencing 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.

9.51 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.

Special Conditions - Chapter 9: General Obligations

SpC 9.10 Long Term Network Planning	
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
Draft Determination	GT Sector Annex paragraphs 2.143-2.144
Associated document	NA

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

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

9.54 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.

SpC 9.11 Transmission Planning Code	
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	NA

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

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

9.57 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.

SpC 9.12 Licensee’s Network Model	
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	NA

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

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

9.60 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.

SpC 9.13 Capacity Requests, Baseline Capacity and Capacity Substitution	
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	NA

9.61 As detailed under 3.11, the reason for amending the current licence conditions is to separate out the provisions dealing with 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 Capacity from the Funded Incremental Obligated Capacity Re-opener process to avoid unnecessary duplication in the licence, and to separate out the reopener & PCD aspects from the non-reopener processes and requirements.

9.62 The effect of the amendments to 5F and 5G as far as they relate to SpC 9.13 is to move the abovementioned provisions into a separate licence condition and establish a process for notifications to the authority ahead of any applications

under 3.11, and approval of Entry Capacity or Exit Capacity Substitution. The process and requirements for maintaining the tables of Baseline Entry/Exit Capacity, NTS Entry/Exit Points and Zero Licence Baseline Entry/Exit points has been updated to provide additional clarity.

9.63 The modifications also rename this condition.

SpC 9.14 Prohibited Procurement Activities	
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	NA

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

9.65 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.

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

SpC 9.15 NTS Shortfall Contribution Obligations	
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	NA

9.67 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.

9.68 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.

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

SpC 9.16 Restriction of prices in respect of Tariff Capped Metering Activities	
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	NA

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

9.71 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.

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

SpC 9.17 Entry Capacity and Exit Capacity Obligations and Methodology Statements	
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	NA

9.73 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.

9.74 The reason for amending the current licence condition is to provide a clearer end-to-end process for reviewing and revising the capacity methodology statements.

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

SpC 9.18 Methodology to determine the release of Entry Capacity and Exit Capacity volumes	
Type of change	Amendment to existing licence condition
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	NA

- 9.76 The purpose of this condition is to set out obligations on the licensee to maintain, comply with and publish the capacity release methodology statements.
- 9.77 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,⁵⁸ 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 end-to-end process for reviewing and revising the capacity release methodology statements, which includes reviewing statements in consultation with interested parties to provide them with an opportunity to discuss where these statements may need modifying.
- 9.78 The effect of the amendments is to make the condition clearer, whilst allowing Relevant Shippers and DN Operators to participate in the review process and ensure the price control parameters of the NPV Test are set out in the licence.

SpC 9.19 System Management Services	
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	NA

- 9.79 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.
- 9.80 The reason for amending the current licence condition is to change the wording in 1A.9, 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

⁵⁸ [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.](#)

Procurement Guidelines Document, following workgroup discussions with the licensee.

- 9.81 The effect of the amendments is to grant greater flexibility on the licensee on its requirements to procure and use of System Management Services, and to ensure the licensee must comply with the System Management Principles Statement.

SpC 9.20 Independent market for balancing	
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	NA

- 9.82 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).

- 9.83 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.

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

SpC 9.21 Provision of information	
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	NA

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

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

- 9.87 The effect of the amendments is to ensure the licensee's obligations on publishing information on its website are clearer.

SpC 9.22 Development and implementation of a Demand Side Response methodology for use after a Gas Balancing Notification	
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	NA

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

9.89 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 done during RIIO-GT1.

9.90 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

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

9.91 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.

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

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

SpC 2D Permit Arrangements for the provision of incremental capacity	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT

Associated document	NA
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9.94 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).

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

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

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

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

9.98 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.

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

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)	
Type of change	Removal of a RIIO-1 condition to transfer to the PCFH
Relevant licensees/relevant sectors	GT
Associated document	NA

9.100 The purpose of this condition is to set out the 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-GT1 price control period.

9.101 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 the DDs, 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.

9.102 Further amendments to the text 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.

9.103 The effect of the modifications is to transfer 3E from the SpCs to the PCFH.⁵⁹

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

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

9.105 The reason for removing this condition is because under RIIO-2 there is no uncertainty mechanism relating to SO Enhanced Security Cost and that 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)⁶⁰ to establish new funding and governance arrangements for the gas central data service provider (Xoserve).

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

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

⁵⁹ The draft PCFH is located here: GT2 Price Control Financial Handbook.

⁶⁰ We are proposing to renumber the remaining condition A15 in this consultation.

9.107 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.

9.108 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-GT1 price control period.

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

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

9.110 The purpose of this condition is to set out the obligations of the licensee in respect of the Greenhouse Gas Investigation Activities.

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

9.112 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
SSMD	GT Sector Annex paragraph 6.16
Associated document	NA

9.113 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.

9.114 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. Once that change is made to RIIO1 licence conditions SpC 5F and 5G (discussed above), there are no longer any revenue drivers in the GT price control to which this licence condition would apply.

9.115 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	NA

9.116 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.

9.117 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.

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

SpC 10B: Separation of NTS and Distribution Network Businesses	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	NA

9.119 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.

9.120 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.

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

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

9.122 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.

9.123 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.

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

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

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

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

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

SpC 11G: Application of Special Condition 11H	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees/relevant sectors	GT
Associated document	NA

9.128 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.

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

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

10. 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.

Gas distribution questions

- Q28. What are your views on the proposed changes to the SSCs and SpCs outlined in this Gas Distribution chapter and the Annexes
- Q29. Does the new version of the Gas Price Reference Cost formula provide for the same calculation as that in the existing formula?

Reason and effect for proposed Gas Distribution Licence Conditions

Standard Special Conditions - Part D

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

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

SSC D10: Quality of Service Standards	
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
Draft determination/SSMD reference	SSMD GD Sector Annex paragraph 2.77 and DD GD Sector Annex paragraph 2.60
Associated document	NA

10.4 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.

10.5 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 Draft Determinations, we proposed to extend the Guaranteed Standards of Performance (GSOPs) to disconnections, diversions, domestic and non-domestic developments.

10.6 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.

10.7 The effects of the modifications in relation to connections will place obligations on licensees to deliver a percentage of quotations within timescales specified in the licence to customers requesting disconnections or diversions and for gas connections to domestic and non-domestic developments.

SSC D12: Requirement to offer terms for the provision of gas entry points and to respond to green gas entry applications	
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
Draft determination reference	GD Sector Annex paragraph 2.60
Associated document	NA

10.8 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.

10.9 The reason for the amendments is to reflect the proposal in draft determinations to extend Guaranteed Standards of Performance (GSOPs) to green gas entry connection enquiries.

10.10 The effect of the proposed amendments is to place obligations on licensees to deliver quotations within timescales specified in the licence to customers requesting that green gas is connected to the licensee’s pipe-line system, and outlining the payment to be made if the licensee fails to meet this obligation.

SSC D21: Treating Domestic Customers Fairly	
Type of change	New condition
Relevant licensees	All GDNs
SSMD reference	GD Sector Annex paragraphs 2.23-2.25
Associated document	Fair Treatment Guidance Document

10.11 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.⁶¹

10.12 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.

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

⁶¹ Paragraphs 2.23-2.25 of the SSMD GD Annex.

SSC D22: Modifications to Standard Conditions	
Type of change	New condition
Relevant licensees	All GDNs
DD reference	GD Sector Annex paragraphs 4.10-4.15
Associated document	NA

10.14 The reason for introducing this condition is to give effect to our proposal in DDs to give GDNs greater discretion over investigating and seeking to recover the value of suspected gas theft.

10.15 The effect of this condition is 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

SpC 3.8 Vulnerability and Carbon Monoxide Allowance	
Type of change	New condition
Relevant licensees	All GDNs
SSMD reference	GD Sector Annex paragraphs 2.34-2.37
Associated document	VCMA Governance Document

10.16 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.

10.17 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.

SpC 3.9 Tier 1 mains decommissioned Price Control Deliverable	
Type of change	New condition
Relevant licensees	All GDNs
Draft determination reference	GD Sector Annex paragraphs 2.165 – 2.192
Associated document	NA

10.18 The reason for introducing this new condition is to give effect to our proposal in DDs to establish a PCD for the delivery of Tier 1 mains decommissioning.

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

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

SpC 3.10 Tier 1 Services Repex Price Control Deliverable	
Type of change	New condition
Relevant licensees	All GDNs
Draft determination reference	GD Sector Annex paragraphs 2.193-2.206
Associated document	NA

10.21 The reason for introducing this new condition is to give effect to our proposal in DDs to establish a PCD for the delivery of Tier 1 services interventions.

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

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

SpC 3.11 Gas Holder Demolitions Price Control Deliverable	
Type of change	New condition
Relevant licensees	All GDNs
SSMD reference	GD Sector Annex paragraph 4.83
Associated document	NA

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

10.25 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.

SpC 3.12 Capital Projects Price Control Deliverable	
Type of change	New condition
Relevant licensees	All GDNs
Draft determination reference	GD Sector Annex paragraphs 2.216-2.225
Associated document	NA

10.26 The purpose of this new condition is to give effect to our decision in DDs to establish a PCD for a predefined group of named capital projects.

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

SpC 3.13 Fuel Poor Network Extension Scheme Volume Driver	
Type of change	New condition
Relevant licensees	All GDNs
Draft determination reference	GD Sector Annex paragraphs 2.20-2.22
Associated document	FPNES Governance Document

10.28 The reason for introducing this new condition is to give effect to our proposal in DDs 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.

10.29 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 of changes to government policy.

SpC 3.14 Tier 2A Mains and Services Replacement Expenditure Volume Driver	
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
DD reference	GD Sector Annex paragraph 4.19-4.27
Associated document	NA

10.30 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.

10.31 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 dimeter band that falls within scope of this condition.

10.32 The effects of the modifications are to enable the continued funding for Tier 2A work over RIIO-GD2, but to improve its clarity.

SpC 3.15 HSE Repex Policy Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.29-4.31
Associated document	Reopener Guidance and Application Requirements Document

10.33 The purpose of this new licence condition is to give effect to our proposal in DDs to establish a re-opener to allow for changes to HSE policy which affect the volume of repex work and the approach that GDNs take.

10.34 The effect of the new condition is to establish a re-opener that will apply to repex costs associated with changes to HSE policy including the Iron Mains Risk Reduction programme and relevant repex related legislation, which result in a fundamental change to the work that GDNs are mandated to carry out to remain compliant.

SpC 3.16 Tier 1 Stubs Repex Policy Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination/SSMD reference	GD Sector Annex paragraphs 4.34-4.36
Associated document	Reopener Guidance and Application Requirements Document

10.35 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener to allow for 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.

10.36 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.

SpC 3.17 Heat Policy and Energy Efficiency Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.51-4.52

Associated document	Reopener Guidance and Application Requirements Document
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10.37 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener to allow for the recovery of uncertain costs relating to heat policy areas.

10.38 The effect of the new condition is to establish a re-opener that will apply to uncertain costs arising from changes to specified Regulations relating to gas quality, connection charging arrangements, obligations on the licensee to promote energy efficiency amongst gas consumers and policies relating to either decommission or switch any part of the network to hydrogen.

SpC 3.18 Diversions Policy Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.39-4.41
Associated document	Reopener Guidance and Application Requirements Document

10.39 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener to allow for the recovery of uncertain costs relating to Diversions.

10.40 The effect of the new condition is to establish a re-opener that will apply to additional costs which are not rechargeable for <7bar mains and associated services diversions work.

SpC 3.19 Multiple Occupancy Buildings safety Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.45-4.48
Associated document	Reopener Guidance and Application Requirements Document

10.41 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener to allow for the recovery of uncertain costs relating to the regulation of safety in Multiple Occupancy Buildings.

10.42 The effect of the new condition is to establish a re-opener that will apply where there have been changes in the Safety Requirements Relating to Multiple

Occupancy Buildings resulting in changes to the costs of carrying out its licensed activities.

SpC 3.20 New Large Load Connections Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.68-4.72
Associated document	Reopener Guidance and Application Requirements Document

10.43 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener relating to the connection of New Large Loads.

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

SpC 3.21 Smart Metering Roll-out Costs Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.75-4.77
Associated document	Reopener Guidance and Application Requirements Document

10.45 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 proposed in DDs.

10.46 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.

SpC 3.22 Specified Streetworks Costs Re-opener	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.80-4.83
Associated document	Reopener Guidance and Application Requirements Document

10.47 The reason for introducing this new licence condition is to give effect to our proposal in DDs to establish a re-opener relating to streetworks.

10.48 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.

SpC 3.23 Domestic Connections Volume Driver	
Type of change	New condition
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraphs 4.62-4.65
Associated document	NA

10.49 The purpose of this new licence condition is to give affect to our proposal in DDs to have a mechanism for adjusting allowances for domestic connections in the event that actual workload differs from the forecast workload used to set ex-ante connections allowances.

10.50 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.

SpC 3.25 London Medium Pressure Repex Re-opener	
Type of change	New condition
Relevant licensees	Cadent
Draft Determination reference	Cadent Annex paragraphs 4.9-4.11
Associated document	Reopener Guidance and Application Requirements Document

10.51 The purpose of this new licence condition is to give effect to our proposal in DDs to establish a re-opener for Cadent relating to the London Medium Pressure project.

10.52 The effect of the new condition is to establish a re-opener where the licensee incurs or is expected to incur justified additional costs in order to fund specified sections of the London Medium Pressure project.

SpC 3.26 [REDACTED] Price Control Deliverable	
Type of change	New condition
Relevant licensees	SGN
Draft Determination reference	SGN Annex paragraphs 2.18-2.20
Associated document	NA

10.53 The reason for introducing this new condition is to give effect to our proposal in DDs that SGN should have a PCD for the [REDACTED] project.

10.54 The effect of this new condition is to specify the outputs, delivery date and allowances for the PCD and specifies the formula to calculate the recovery of associated allowances for the non-delivery of PCD outputs.

SpC 3.27 Intermediate Pressure Reconfigurations Price Control Deliverable	
Type of change	New condition
Relevant licensees	SGN
Draft Determination reference	SGN Annex paragraphs 2.21-2.24
Associated document	NA

10.55 The reason for introducing this new condition is to give effect to our proposal in DDs that SGN should have a PCD for the installation of small pressure reducing installations (PRIs) and Service Governors.⁶²

10.56 The effect of the condition is to specify the outputs, delivery dates and allowances for the Intermediate Pressure Reconfigurations PCD and to specify the formula to calculate the recovery of associated allowances for the non-delivery of PCD outputs.

SpC 3.28 Remote pressure management Price Control Deliverable	
Type of change	New condition
Relevant licensees	SGN
Draft Determination reference	SGN Annex paragraphs 2.25-2.30
Associated document	NA

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

10.58 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.

Special Conditions – Chapter 4: Output Delivery Incentives

SpC 4.2 Customer Satisfaction Survey output delivery incentive	
Type of change	Amendment to existing licence condition

⁶² Paragraph 2.21 of the DD SGN Annex.

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
Draft determination reference	GD Sector Annex paragraph 2.23
Associated document	NA

10.59 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.

10.60 The reason for amending this condition is to give effect to our proposal in DDs to split the BMCS in two and retain the customer satisfaction survey as an independent financial output delivery incentive subject to certain modifications.⁶³

10.61 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
- updates the target, maximum reward and maximum penalty scores for the Customer Satisfaction Survey
- introduce a deadband into the calculation of financial reward received.⁶⁴

SpC 4.3 Complaints Metric output delivery incentive	
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
Draft determination reference	GD Sector Annex paragraph 2.38
Associated document	NA

10.62 The current condition calculates the financial reward received in relation to the RIIO-GD1 Broad Measure of Customer Satisfaction, which relates to the

⁶³ Paragraph 2.179 of the SSMD GD Annex.

⁶⁴ Paragraph 2.29 of the SSMD GD Annex.

Stakeholder Engagement Incentive, Customer Satisfaction Surveys and Customer Complaints.

10.63 The reason for amending this condition is to give effect to our proposal in DDs to split the BMCS in two and retain the complaints metric as an independent financial output delivery incentive subject to certain modifications.⁶⁵

10.64 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.

SpC 4.4 Shrinkage management output delivery incentive	
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
SSMD reference	GD Sector Annex paragraph 3.22-3.31
Associated document	NA

10.65 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.

10.66 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.

10.67 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.

10.68 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.

10.69 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.

10.70 We have also made some clarifying amendments to the paragraphs relating to the maintenance and revision of the Shrinkage & Leakage Model.

SpC 4.5 Unplanned Interruption Overall Mean Duration output delivery incentive	
Type of change	New condition
Relevant licensees	All GDNs
SSMD reference	GD Annex paragraphs 2.136-2.138
Associated document	NA

10.71 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.⁶⁶

10.72 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.

10.73 The condition also requires GDNs to submit an explanatory report if they breach the Excessive Deterioration level, as set out in the SSMD.

10.74 An alternative form of this condition will apply to Cadent. It will use a different penalty calculation for the North London network, which will measure performance in multiple occupancy building (MOB) interruptions and non-MOB interruptions separately. The penalty calculation for Cadent's other 3 networks will be the same as for the other licensees.

Special Conditions – Chapter 6: Pass-through Items

SpC 6.1 Pass-through Items	
Type of change	Amendment to existing licence condition
RIIO-1 number	SpC 1C

⁶⁶ Paragraphs 2.136 and 2.138.

RIIO-1 licence condition name	Distribution Network allowed pass-through items
Relevant licensees	All GDNs
Draft Determination reference	GD Sector Annex paragraph 4.5-4.18
Associated document	NA

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

10.76 The reason for amending the condition is to reflect the policy set out in our SSMD and DDs:

- 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)⁶⁷.
- 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-through⁶⁸.
- To remove the current definition of "Distribution Network Pension Deficit Charge" and refer to the clearer definition within the GD RIGs.
- 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 finance conditions as set out in the finance chapter above.

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

Special Conditions – Chapter 7: Legacy Adjustments

SpC 7.7 Close out of the RIIO-GD1 Discretionary Reward Scheme	
Type of change	Close out of RIIO-1 condition
RIIO-1 number	SpC 1G

⁶⁷ Paragraphs 6.56 of the SSMD GD Annex.

⁶⁸ Paragraph 6.39 of SSMD GD Annex.

SpC 7.7 Close out of the RIIO-GD1 Discretionary Reward Scheme	
RIIO-1 licence condition name	Discretionary Reward Scheme revenue amounts
Relevant licensees	All GDNs
SSMD reference	GD sector document paragraphs 2.251 and 3.105
Associated document	NA

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

10.79 The reason for these modifications is because we decided to remove this incentive in the SSMD.⁶⁹

10.80 The effect is to close out this incentive with any final payments to be made in the regulatory year 2021/22.

SpC 7.8 Close out of the RIIO-GD1 Stakeholder Engagement Incentive	
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
SSMD reference	GD Sector Annex paragraphs 2.94
Associated document	NA

10.81 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.

10.82 The reason for these modifications is because we we decided to remove the Stakeholder Engagement Incentive in the SSMD.⁷⁰ Our approach for the licence conditions relating to the customer satisfaction surveys and the complaints metric incentives are set out earlier in this chapter.

10.83 The effect of the amended condition is to close out the Stakeholder Engagement Incentive with any final payments to be made in the regulatory year 2021/22.

⁶⁹ Paragraphs 2.251 and 3.105 of the SSMD GD Annex.

⁷⁰ Paragraph 2.94 of the SSMD GD Annex.

SpC 7.9 Close out of the RIIO-GD1 Customer Satisfaction Survey Incentive	
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
SSMD reference	GD Sector Annex paragraph 2.179
Associated document	NA

10.84 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.

10.85 The reason for these modifications is because we decided to retain the customer satisfaction survey as an independent financial output delivery incentive in the SSMD for RIIO-GD2.⁷¹ Our approach for the licence conditions relating to the customer satisfaction surveys and the complaints metric incentives are set out earlier in this chapter.

10.86 The effect of the amended condition is to close out the RIIO-GD1 Customer Satisfaction Survey Incentive with any final payments to be made in the regulatory year 2021/22.

SpC 7.10 Close out of the RIIO-GD1 Complaints Metric Incentive	
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
SSMD reference	GD Sector Annex paragraph 2.198
Associated document	NA

10.87 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.

10.88 The reason for these modifications is because we decided to retain the complaints metric as an independent financial output delivery incentive in the SSMD for RIIO-

⁷¹ Paragraph 2.179 of the SSMD GD Annex.

GD2.⁷² Our approach for the licence conditions relating to the customer satisfaction surveys and the complaints metric incentives are set out earlier in this chapter.

10.89 The effect of the amended condition is to close out the RIIO-GD1 Complaints Metric with any final payments to be made in the regulatory year 2021/22.

SpC 7.11 Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism	
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
SSMD reference	GD Sector Annex paragraph 2.77
Associated document	NA

10.90 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.

10.91 The reason for these modifications is to implement the decision in the SSMD to remove this incentive in RIIO-GD2.⁷³ We have also amended the length of time for the consultation process.

10.92 The effects 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.

SpC 7.12 Close out of the RIIO-GD1 Exit Capacity Cost Adjustment	
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
Draft determination reference	GD Sector Annex paragraph 2.241
Associated document	NA

10.93 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

⁷² Paragraph 2.198 of the SSMD GD Annex.

⁷³ Paragraph 2.77 of the SSMD GD Annex.

for the relevant Distribution Network reflects the costs incurred with respect to NTS Exit Capacity.

10.94 The reason for these modifications is because we have decided not to continue with the RIIO-GD1 Exit Capacity incentive in DDs, and to include the exit capacity-related pass-through costs within SpC 1C Pass Through instead.

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

Special Conditions – Chapter 9: General Obligations

SpC 9.8 Restriction of prices in respect of Tariff Capped Metering Activities	
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	NA

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

10.97 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.

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

SpC 9.11 Gas conveyed to Independent Systems	
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 only
Associated document	NA

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

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

Removal of RIIO-1 Special Conditions

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

10.101 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).

10.102 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.

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

SpC 4F: Separation of NTS and Distribution Network Businesses	
Type of change	Complete removal of a RIIO-1 condition
Relevant licensees	Cadent
Associated document	NA

10.104 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.

10.105 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.

10.106 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	NA

10.107 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.

10.108 The reason for removing these conditions is that none of the conditions are being used in the current licence.

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

11. 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.

Electricity system operator questions

- Q30. We invite stakeholders to comment on the following proposed changes to the Special Licence Conditions (SpCs) in the ESO's licence as outlined in this chapter:
- a) Do you agree with our proposed changes to the ESO's licence?
 - b) Do you have any views on the specificities within these proposed licence changes?
 - c) Do you think there are any other changes needed to the ESO's licence that would be beneficial?

Reason and effect for proposed Electricity System Operator Licence Conditions

Special Conditions - Chapter 1: Interpretations and definitions

SpC 1.2 Modification of Standard Conditions	
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
Draft determination reference/SSMD reference	NA
Associated document	NA

11.1 The purpose of this condition is to remove reference to Special Condition 1C as having the effect amending the Standard Licence Conditions.

11.2 The reason for amending this condition is to clarify that the definition provided in Standard 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.

11.3 The effect of the amended condition is to improve the clarity of this condition.

Special Conditions - Chapter 2: General Obligations

SpC 2.1 EMR Arrangements	
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
Draft determination reference	ESO Annex paragraphs 2.6-2.15
Associated document	NA

11.4 The current condition sets out the incentives on the EMR Delivery Body.

11.5 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 SpC 4.3.

11.6 The effect of this change is to remove the standalone EMR incentives on the licensee.

SpC 2.2 Black Start Strategy & Procurement Methodology	
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
Draft determination reference	ESO Annex, paragraphs 2.16-2.21
Associated document	NA

11.7 The purpose of this condition is to establish arrangements to determine the allowed revenue derived from Black Start, including a cost efficiency check.

11.8 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.

11.9 The effect of these modifications is to ensure it is consistent with the RIIO-2 funding package and Black Start arrangements under the RIIO-2 incentives scheme proposed in the Draft Determination.

SpC 2.4 Electricity Market Reform	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2N
RIIO-1 licence condition name	Electricity Market Reform
Draft determination reference/SSMD reference	N/A
Associated document	N/A

11.10 This condition sets out the licensee's obligations in relation to its conduct in performing the Electricity Market Reform (EMR) Functions.

11.11 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.

11.12 The effect of the changes is to improve the clarity of the licence.

SpC 2.5 Network Access Policy	
Type of change	Amendment to existing licence condition
Relevant licensees	ESO
RIIO-1 number	Spc 2J
RIIO-1 licence condition name	Network Access Policy
Draft determination reference/SSMD reference	N/A
Associated document	N/A

11.13 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.

11.14 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.

11.15 The effect of this amended condition is that the condition will now accurately reflect the single GB NAP.

SpC 2.6 Prohibited Activities and Conduct of the Transmission Business	
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
Draft determination reference/SSMD reference	N/A
Associated document	N/A

11.16 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.

11.17 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.

11.18 The effect of the changes is to improve the clarity of the licence.

SpC 2.7 Prohibition on engaging in preferential or discriminatory behaviour	
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
Draft determination reference/SSMD reference	N/A
Associated document	N/A

11.19 This condition prevents the licensee’s from unduly discriminating between transmission licensees.

11.20 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.

11.21 The effect of the changes is to improve the clarity of the licence.

Special Conditions - Chapter 3: Transmission Revenue Restriction

SpC 3.1 Transmission Network Revenue Restriction	
Type of change	Amended condition
Relevant licensees	ESO
RIIO-1 number	SpC 3A
RIIO-1 licence condition name	Restriction of Transmission Network Revenue
Draft determination reference	ESO Annex, paragraph 8.14-8.22, and TNUOS Decision Letter ⁷⁴
Associated document	NA

11.22 The purpose of this condition is to determine the level of Maximum Revenue that may be recovered by the ESO through Transmission Network Charges.

11.23 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 the 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.

11.24 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 chapter 4; 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.

SpC 3.2 Pass-through items	
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

⁷⁴ Transmission Network Use of System (TNUoS) cashflow timing decision: https://www.ofgem.gov.uk/system/files/docs/2020/07/tnuos_decision_letter_final_0.pdf

Draft determination reference/SSMD reference	N/A
Associated document	N/A

11.25 The purpose of this condition is to calculate the pass-through costs that the licensee is allowed to recover.

11.26 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 multitude of true-up terms by an ADJ term in the principal formula, as per the finance licence drafting changes.

11.27 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.

Special Conditions - Chapter 4: System Operator Revenue Restriction

SpC 4.1 System Operator Internal Revenue Restriction	
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
Draft determination reference	ESO Annex, paragraph 8.14-8.27
Associated document	NA

11.28 This condition sets out the allowed internal revenue for the ESO.

11.29 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, and bad debt.

11.30 The effect of this 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 term, as per the finance licence drafting changes, as detailed in Chapter 4; include innovation allowances, NIA and SIFFB; and introduce a Bad Debt term to allow the recovery of BNUOS-related bad debt.

SpC 4.2 Balancing Services Activity Revenue Restriction on External Costs	
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
Draft determination reference/SSMD reference	ESO Annex, paragraph 8.14-8.27
Associated document	NA

11.31 This condition sets out the allowed external revenues for the ESO.

11.32 We propose changes to this condition to reflect that output incentives are recovered via the ESO's internal allowed revenue.

11.33 The effect of these changes is to move output incentives from the external balancing costs formula to the ESO's Internal Allowed Revenue term.

SpC 4.3 Electricity System Operator Reporting and Incentive Arrangements	
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
Draft determination reference	ESO Annex, paragraph 2.22-2.77
Associated document	ESORI Guidance Document

11.34 The purpose of this condition is to set out the ESO's incentive scheme and reporting arrangements.

11.35 The reason for amending the current licence condition is to reflect the revised ESO incentive scheme for RIIO-2 proposed in our DDs. The processes covered in this condition will need to be aligned with the new RIIO-2 business planning cycle and requirements. The amendments include:

- the updated IncPayExtt value;
- the new Business Plan requirements for RIIO-2; and
- the updated reporting requirements.

11.36 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 as well.

SpC 4.4 SO-TO mechanism	
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
Draft determination reference	ESO Annex paragraphs 8.14- 8.27
Associated document	NA

11.37 The purpose of this condition is to establish a mechanism for exchanging funds with the onshore TOs to achieve whole system benefits.

11.38 The reason for amending this current licence condition is to change the recovery of SO-TO costs to make this more consistent with the recovery of other costs.

11.39 The effect of the amended condition will simplify the mechanism's cost recovery process. These changes are not intended to materially alter the way the SO-TO mechanism functions. We welcome views on whether the updated drafting allows the ESO to recover SO-TO costs in a sufficiently flexible manner and also whether the annual values, which are broadly consistent with RIIO-1 values, remain appropriate or for RIIO-2.

Removal of RIIO-1 Special Conditions

SpC 2F Role in respect of the National Electricity Transmission System Operator area located in offshore waters	
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 in respect of the National Electricity Transmission System Operator area located in offshore waters
Draft determination reference/SSMD reference	NA
Associated document	NA

11.40 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.

11.41 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.

11.42 The effect of this deletion is to streamline the licence by removing a redundant condition.

SpC 4B Balancing Services Activity Conditions: Interpretation	
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
Draft determination reference/SSMD reference	NA
Associated document	NA

11.43 The purpose of this condition is to set out that all external revenue shall be measured on an accruals basis, after tax.

11.44 The reason for the removal of this condition is that the information in this condition will be considered elsewhere in the licence.

11.45 The effect of this deletion is to streamline the licence by removing a redundant condition.

SpC 7D Arrangements for the recovery of SO uncertain costs	
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
Draft determination reference/SSMD reference	NA
Associated document	NA

11.46 The purpose of this condition is to arrange the relevant adjustments for the recovery of the system operator's uncertain costs.

11.47 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.

11.48 The effect of this condition is to streamline the licence by removing a redundant condition.

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Appendix 1 – RIIO-2 Licence Drafting Principles

These are the licence drafting principles that we have applied when developing the drafting for RIIO2.

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. A previous version was shared at the first Licence Drafting Working Group, but they have been updated to reflect our experience of drafting the licence. The latest version is set out below.

Definitions

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.

It is acceptable for a definition simply to refer to a definition in documents outside the licence and legislation e.g. in industry codes or the Price Control Financial Handbook. However, a decision will need to be made about whether that definition should be ambulatory e.g. “as from time to time amended” or static e.g. “version 2.3”.

In general, where Ofgem are the authors e.g. RIGs or have a degree of control e.g. industry codes, especially if there are frequent updates, we recommend that the reference is ambulatory.

Defined terms should be capitalised.

Structure of conditions

Title

Each licence condition will have a title, which in general should be no more than one line.

Headings

Licence conditions that are more than a few paragraphs long should have headings, which should generally be no more than one line.

Paragraphs

Each paragraph should only deal with one idea and this means that generally it should only contain one sentence.

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.

If you are listing things, use sub-paragraphs for each item on the list, rather than one long sentence.

Introduction

Every price control related licence condition should start with a section headed "Introduction". This should set out the purpose of the condition.

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.

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

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; and
- dealing with any procedural or minor points after the more substantive parts of the condition e.g. the establishment of Associated Documents.

Obligations

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 (see more on Associated Document principles in Chapter 3).

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.

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”.

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

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; and
- consents.

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); and
- trigger – where a licence condition takes effect or ceases to have effect if certain circumstances arise or at certain times.

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.

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

Use plain English wherever possible.

Use “must” instead of “shall” for placing obligations on the licensee.

Use the active rather than the passive voice i.e. “the licensee must send a notice”, rather than “a notice must be sent by the licensee”.

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.

“Licensee”, “condition”, “licence”, “special condition” and “standard condition” should be all lower case, unless at the beginning of a sentence.

Limit algebraic terms to a maximum of four letters, plus where appropriate a subscript, wherever possible.

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.

When referring to another licence condition or a particular paragraph within your own licence condition you do not need to say “above” or “below”.

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 e.g. "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".

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".

Appendix 2 – Consultation questions

Q1. Do you have any views on the RIIO-2 licence drafting principles, set out in Appendix 1?

Q2. Do you have any views on the definitions and the defined terms set out in the Annex?

Structure change questions

Q3. What are your views on the proposed changes to structure of the SpCs?

Associated Documents question

Q4. Do you agree with our principles for Associated Documents?

Q5. Do you have any views on our proposed list of Associated Documents and the timetable for consulting and implementing them?

Finance related questions

Q6. What are your views on the proposed changes to the SLCs, SSCs and SpCs outlined in this finance chapter?

Q7. Do you agree with our reasons for making the proposed finance related changes that will have effect throughout the SpCs?

Q8. What are your views on the detail of the finance related changes that we have proposed? Are the new concepts such as allowed and calculated revenue clear?

Q9. What are your views on the proposal to replace the MOD term?

Q10. Would you support a consolidated K/ADJ term if the interest rate being applied was the same in both cases (eg both WACC or both short term cost of debt based)?

Q11. Will the changes proposed to AIP, and the other changes proposed in this chapter, work with the charging arrangements that exist for each licensee and sector? Or are any further modifications required?

Q12. Do you support moving towards a required 'self publication' of allowed revenue aligning with any tariff setting, as opposed to one as a result of the AIP process? What process would you propose?

Q13. Do you feel it is necessary for the licence to contain algebra for ADJ and K, or is it sufficient to have the calculations contained in the PCFM and explained in the PCFM Handbook?

Q14. Do you think FT35 should remain in the SLCs/SSCs or be moved to the Special Conditions?

Q15. Do you agree with our proposal to make the recovery penalty upper and lower bounds consistent for all licensees?

Q16. Do you agree with our proposals relating to DRS? Do you see merit in clarifying and documenting the mechanisms behind each category of DRS and in particular do you have a view on how the various elements of DRS expenditure and revenue are reported, how they are treated within the price control and whether they are included within Allowed Revenue.

Q17. Do you agree with our proposal to retain the allocation of costs and revenues condition (FT35) for the Gas sectors? Do you agree with the proposal to apply this condition to the ET and ESO sectors? If so, do you have a view on the business activities that costs and revenues should be attributed across and if not, are there any reasons that this condition should not apply to ET and ESO licensees?

Q18. Do you agree with our proposals relating to DRS? Do you see merit in clarifying and documenting the mechanisms behind each category of DRS and in particular do you have a view on how the various elements of DRS expenditure and revenue are reported and how they are treated within the price control?

Cross sector questions

Q19. What are your views on the proposed changes to the SLCs, SSCs and SpCs outlined in this cross sector chapter?

Q20. What are your views on the principles we have created for drafting PCD licence conditions?

Q21. What are your views on the principles we have created for drafting re-opener licence conditions?

Q22. Do you think the proposed new licence condition 'CS35 Housekeeping' should apply to the SLCs and SSCs or just the SpCs?

Electricity Transmission Questions

Q23. What are your views on the proposed changes to the SpCs outlined in this Electricity Transmission licence conditions chapter and the Annexes?

Q24. Do you have any views on the definition of the Competent Authority in SpC9.13 Restriction on the use of certain information?

Electricity transmission and system operator questions

Q25. What are your views on the proposed changes to the SLCs outlined in this Chapter and the Annexes.

Gas transmission and distribution questions

Q26. What are your views on the proposed changes to the SSCs outlined in this Gas Transmission and Gas Distribution chapter and the Annexes?

Gas transmission questions

Q27. What are your views on the proposed changes to the licence conditions as outlined in this chapter and in the Annexes.

Gas distribution questions

Q28. What are your views on the proposed changes to the SSCs and SpCs outlined in this Gas Distribution chapter and the Annexes

Q29. Does the new version of the Gas Price Reference Cost formula provide for the same calculation as that in the existing formula?

Electricity system operator questions

Q30. We invite stakeholders to comment on the following proposed changes to the Special Licence Conditions (SpCs) in the ESO's licence as outlined in this chapter:

- a) Do you agree with our proposed changes to the ESO's licence?
- b) Do you have any views on the specificities within these proposed licence changes?
- c) Do you think there are any other changes needed to the ESO's licence that would be beneficial?

Appendix 3 Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')

Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

Your personal data will not be sent overseas

(Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

Your personal data will not be used for any automated decision making.

(If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

More information

For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".