

AD Price Control Deliverable Reporting Requirements and Methodology Document

Condition	Comment
1. Introduction	<p>1.2 Incorrectly refers to the “Price Control Deliverable Reporting Requirements and Methodology Guidance”. The correct term is the “Price Control Deliverable Reporting Requirements and Methodology Document”.</p> <p>Within this introduction section it would be helpful to set out how this document relates to other PCD guidance documents, for example the Gas Transmission Project Assessment Process (GTPAP) PCD Guidance and Application Requirements published on 27th January for consultation. It is not clear currently how these documents are intended to interact.</p>
2. PCD principles	<p>2.1.1 The document states that each PCD is defined by the output specified in the licence. PCD outputs may also be detailed in the NGET Redacted Information Document and in the NGET and NGGT confidential annexes that are referred to in the relevant PCD Appendices.</p> <p>The summary states “all definitions are outlined in Annex 1 of this document.” This does not recognise that some of the terms used in the document are defined in the licence. Eg Evaluative PCD is already a defined term in the licence, but the role of the AD is to explain how Evaluative PCDs are treated with respect to reporting requirements and the PCD Assessment. We propose the definitions should be clarified in this regard.</p> <p>2.1.3 - This states “If the licensee does not deliver the PCD as specified in the licence on time, the Authority will make a downward adjustment.”. However, this may not be appropriate for a project that is simply delayed (Ofgem have stated that it may reprofile but not in all cases). Suggest for consistency that wording should be changed to “...the Authority will consider making...” or “...the Authority may make...”.</p> <p>2.1.5 We are unclear how a change in external environment would be taken into account when considering Consumer Outcome in any comparison to original specification in the licence. Please can Ofgem clarify this in the document.</p> <p>2.1.6 Suggest addition to make the language clearer: “where there are any cost savings compared to the value of allowances associated with the relevant PCD output, the cost savings are attributable to efficiencies or innovation</p> <p>It would be helpful if Ofgem could include a non-exhaustive list of examples of the types of evidence it would expect licensees to provide in order to demonstrate that savings arise as a result of a “genuine efficiencies or innovation”.</p> <p>2.1.5, 2.1.6 and 2.1.7 - Should be re-numbered as sub-paragraphs of 2.1.4.</p>

3. PCD specification and types

3.1 4th bullet, suggest it would be more consistent with the other language in the document (and the associated PCD licence conditions) to refer to “How Ofgem will determine any adjustments of associated baseline allowances”.

3.2 If this section is attempting to provide an exhaustive list of the legitimate areas where Evaluative PCDs provide flexibility then we propose that the wording should be extended to include reference to delivery dates and Consumer Outcomes as well. Additional proposed wording underlined: “Evaluative PCDs are set in cases where there is some flexibility in the output to be delivered, either in terms of the scope of works, Consumer Outcome, delivery dates, costs or the specifications delivered.”

Description of Mechanistic PCD, as above suggest for consistency of language that this should refer to adjustment of allowances rather than recovery of allowances.

There are some unique features of the Cyber OT UIOLI + PCD regulatory treatment and associated calculations which are not fully set out in the draft licence, draft PCFM or this draft PCD Associated Document. We set out below the issues we have identified, and we suggest how additions could be made to one or more elements of the price control package to address these points:

The Cyber OT UIOLI + PCD topic involves a two-stage assessment process where Stage 1 is the PCD assessment and Stage 2 is the UIOLI assessment carried out at total UIOLI pot level. In the consultation draft package, the process steps around Stage 2 are not defined leaving implementation of this important aspect of Final Determinations unclear. We propose the intent can be clarified as follows:

- (i) The PCD Associated Document should be amended to explicitly recognise that the two-stage process is in place for Cyber OT (even if it is intended that the PCD Associated Document is not the place to describe the substance of the UIOLI assessment process);
- (ii) it is currently unclear whether the PCD assessment could give rise to multiple directions e.g. for each Annual Iteration Process, or a single direction at the end of RIIO-2. In view of the two-stage process for Cyber OT we propose it ought to be clarified there will only be one direction for Cyber OT which will occur at RIIO-2 close-out. This could be done in a similar way to the footnote that currently appears on page 20 of the PCD Associated Document;
- (iii) The licence Special Condition 3.2 Appendix 1 should be amended to reflect the UIOLI pot value (which is otherwise not currently stated in the licence as contemplated in Final Determinations Core Document 7.36-7.39);
- (iv) The licence Special Condition 3.2 and PCD Associated Document should be amended to clarify that the Basic PCD Report is either not required in the case of Cyber or that its function is discharged by the Cyber PCD reporting regime set out in 3.2.17. The reporting dates set out in Special Condition 3.2 Appendix 2 should be brought into line with the Basic PCD Reporting & RRP reporting dates;
- (v) New UIOLI terms should be introduced for use in the PCFM and documented in the PCFH. E.g. PCFH table 3.1 variable values should include new terms for the “Cyber OT UIOLI pot value” and the “Actual Cyber OT UIOLI expenditure.” These parameters will be needed for the UIOLI assessment stage and but are not otherwise available in the suite of standing data;

- (vi) In order to enact the UIOLI as described in Final Determinations, the UIOLI terms should form part of the total Totex Allowance but a new tab in the PCFM should be created for Non-TIM Totex to clearly separate out this new category of Totex.
- (vii) An additional Appendix should be included in the PCFH to define the UIOLI calculation process. This could be done in a similar way to the existing PCFH Appendix 2 and Figure A2.1 illustration of the Totex Incentive Mechanism.

3.3 The document states that the licence identifies which category each PCD falls into. The NGET and NGGT Special Conditions that were reviewed as part of the recent Statutory Consultation did not explicitly categorise PCDs. We would wish PCDs to be clearly categorised as mechanistic or evaluative in the licence conditions for clarity. This clause also states that the term Evaluative PCD is defined in the Licence. Whilst the term is defined, the definition contained in the Special Conditions merely states that an Evaluative PCD means a Price Control Deliverable where the relevant licence condition states that the Authority will consider making an adjustment to allowances where an output has not been Fully Delivered – this is equally applicable to a mechanistic PCD and does not define the term as clearly as or in a manner that is fully consistent with section 3.2.

4. PCD delivery status

4.1 There are mechanistic PCDs in relation to which the unit of measure is subdivisible for example OHL Conductor measured in cctkms. We expect to report in volumes beneath whole cctkm. The document should be amended to recognise the reporting to 1 decimal of a km.

4.2 Definition of Alternative Specification

We do not believe this currently fully caters for the type of alternative specification of outputs envisaged by Ofgem's policy relating to NGGT redundant assets (where equivalent delivery of the PCD may be achieved through delivering alternative redundant assets solutions). We propose the insertion of "alternative interventions" into descriptions of delivery where alternative specification is used including in this section in the description of the delivery statuses for "Fully Delivered with Alternative Specification" and "Partially Delivered with Alternative Specification":

"Where the licensee has delivered a different specification or alternative interventions to the outputs set out in the licence...."

A different way to achieve the same intention would be to create a definition of Alternative Specification which catered for both specification changes and alternative interventions.

For PCDs which comprise multiple smaller deliverables as an output it may be helpful and more proportionate for Ofgem to apply a "deadband" before an output will be considered as being delivered to an alternative specification. For example where 5% of the original planned volume is delivered to an alternative specification but the remaining 95% is delivered to the specification set out in the licence, the PCD output would nonetheless be assessed as Fully Delivered. We would welcome the opportunity to discuss the level at which such "deadband" would be set.

4.2 explanation of “Delayed” delivery status does not mention Consumer Outcome however, 5.6(3) makes clear that it will be taken into account by Ofgem in determining adjustment to allowances in some circumstances.

Generally we note that the delivery status definitions are not used consistently throughout the document. In order to provide necessary clarity and certainty this should be addressed (for example in the Appendix 2 examples).

4.2 where outputs are referred to as being set out in the relevant licence condition, these should also include “and relevant confidential appendices” as per our comment on 2.1.1. of this document.

5. Adjustments to allowances

As a general point, in line with our previous comments regarding both the drafting of individual PCD licence conditions and previous drafts of the Price Control Deliverable Reporting Requirements and Methodology Document, we consider that the definitions of the different categories of delivery status and the implications in terms of adjustment to allowances which result from Ofgem’s application of such status should, in the interests of transparency, be set out within the licence and not within this Associated Document. The application of the delivery status definitions and the principles around the adjustments to allowances that flow from them may result in material adjustments to allowances under the licence. It is important that licensees have transparency as to how these adjustments to allowances will be made. To the extent that Ofgem proposes any changes to such matters in future, these should be made via the statutory licence modification process so that licensees are afforded suitable rights of appeal to the CMA. We would repeat again our request for these terms to be defined in the licence and for the principles as to how each may result in an adjustment to allowances to similarly be set out on the face of the licence, with any changes in respect of either being subject to the statutory modification process.

Section Summary – as per earlier comments, for consistency suggest this refers to “...determine the adjustment of allowances for PCD Output(s) not delivered...”.

There is currently no materiality threshold specified for delays and subsequent allowance reprofiling or allowance adjustment – suggest this is included to prevent reprofiling for a few weeks delay for example.

5.1 Both the licence and the PCD Reporting Requirements and Methodology document are silent on the timing of review of Mechanistic PCDs. For Mechanistic PCDs we expect a single direction at the end of RIIO-2 to assess performance. This should be included in the document.

5.2 Should read “The value of any adjustment to allowances associated with the relevant PCD output will be calculated in accordance with the relevant licence condition based upon the data submitted by licensees”

5.3 Where PCDs are reviewed annually then the potential to increase allowances in an annual period, but not in total, should exist. This is to take account of any rephasing of network investment.

5.5 Examples of where an adjustment may be deemed necessary in spite of the licensee having undertaken the work should be provided in order to clarify this clause. We would also suggest that this should refer to the defined term “Fully Delivered”.

5.6 The word “reduction” should be replaced by “adjustment”. This is to take account of any annual increases to allowances resulting from reprofiling of allowance to take account of any delays in delivery.

5.6(2) we suggest that the following sentence is added to the end of this paragraph to make clear that where the PCD Output is delivered late but is otherwise delivered in line with the requirements set out in the licence no further adjustment of the relevant allowance will be made:

“Where, but for the failure to achieve the delivery date, Ofgem considers the PCD Output is Fully Delivered, no other adjustment to the relevant allowance will be made.”

5.8 suggest this should refer to the delivery status “Partially Delivered”. Also suggest re-wording for clarity and consistency with 5.7 as follows:

“... the value of any adjustments to allowances associated with the relevant PCD output will be determined by Ofgem using a pro rata adjustment as follows...”.

5.12 We propose this should read “Where we make an adjustment to allowances, the proportion of the adjustment will be attributed to each Regulatory Year of RIIO-2 on a pro-rata basis to match the profile of actual expenditure reported by the licensee.”

6. PCD reporting

As a principle, PCD Reporting should look to avoid duplication of information already contained in Regulatory Reporting Packs.

6.1 Regulatory Reporting Templates and Regulatory Instructions and Guidance have not been shared with licensees so we are unable to comment on this clause. We also note there is a typo in in the first line “Evaluative PCDs”.

6.3 We presume the intention of annual PCD reporting is for Ofgem to understand if there are likely issues with delivery of any PCD or alternative specifications. Linked to our comments on 4.2 this should refer to “alternative specifications or alternative interventions”.

As suggested in previous iterations of feedback we ask Ofgem to indicate following receipt of this report if they are satisfied or to otherwise flag any concerns with proposed alternative specifications/interventions at this stage rather than waiting to assess following the PCD delivery for projects. For example, for NGGT redundant assets which Ofgem have acknowledged may include alternative customer driven decommissioning projects.

6.4 in order to be consistent with defined terms suggest amend as follows "... due in the regulatory year following the regulatory year in which the PCD was due to be Fully Delivered...".

6.6 does not indicate any timeline within which Ofgem will decide that a Full PCD Review will be carried out or the timescale within which such review will be completed. This should be clarified.

6.7 28 days may be a challenging timescale for licensees to submit against depending on the size and scope of the PCD. Suggest insert "or by such later date as agreed by the Authority" at the end.

6.9 it is not clear if this is referring to delivery status "Delayed" as per section 4. If so, suggest this should be amended to be consistent with the terminology. We also note this does not seek any views from the licensee regarding the Consumer Outcome delivered, as this will in some circumstances be taken into consideration by Ofgem in determining an adjustment on allowances suggest this should be included in a similar manner to 6.11.

6.11 (d) suggest amend to "...due to efficiencies and/or innovation" as it may be the case that both are drivers of a reduction in costs.

6.13 The reference to "Where Ofgem have schemes...." is unclear. Should this refer to "where the licensee has schemes...".

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

7.1 We would also suggest that a stated aim should be for the assessment process to be transparent.

7.2 & Table 7.1 We believe that the evaluation of Mechanistic PCDs will take place as part of RII0-2 Close Out process. The document is currently ambiguous and should be amended to reflect the approach.

7.4 Should refer to Regulatory Year not financial year

7.5 Please can Ofgem confirm that where the PCD output is a trigger for a reopener assessment they will be assessed in line with those timescales rather than after the July of the reporting year.

7.6 Suggest amended wording to include assessments of projects (particularly in reference to the GT PAP process):

“We will seek to complete the assessment process within a period of 9 months or less, so that our decision on allowance adjustments can be reflected in the Annual Iteration Process the year following the relevant review window. Where a PCD relates to the continuation of work relating to a subsequent reopener due to take place, we will seek to complete the assessment process as soon as is practicable.”

Table 7.2 - Final bullet under section 1 is not aligned with 6.7 which only gives 28 days for licensees to produce a Full PCD report. This appears to give more flexibility to licensees, which would be preferred.

Table 7.2 - second bullet, 4th sub bullet under section 1, typo “Alternative”.

Table 2 – under section 3, should refer to “any proposed adjustments”

Table 2 – under section 5, should refer to “proposed direction under the relevant PCD licence condition for...”

Table 2 – under section 6, should refer to “a direction under the relevant PCD licence condition following...”

7.7 Should include a reference to RIIO-2 period in respect of adjustments to previous Regulatory Years.

Appendices

Definition of Basic PCD Report.

Contains a typo, suggest amend as follows:

“means the report the licensee is required to submit pursuant to Special Condition 9.3.3.”

Definition of Full PCD Report.

Contains a typo, suggest amend as follows:

“means the report the licensee is required to submit pursuant to Special Condition 9.3.4.”

Definition of Consumer Outcomes.

Insert underlined words to capture future consumers and remove reference to customers. Ultimately customers should be working on behalf of and to deliver in the interests of consumers, as such it is not clear what the reference to customers is intended to add, we suggest it should be amended to:

“means the benefits to existing and future ~~customers~~ or consumers in terms of...”

We propose inserting the following to cater for consumer outcomes in the context of works with environmental drivers such as NGGT's redundant assets:

"Consumer outcomes may also include positive environmental impacts".

There may also be situations where consumer outcomes may come in the form of reducing costs elsewhere in the programme. Again an example of this is in NGGT's redundant assets PCD where decommissioning an asset may result in reduced asset health costs. Proposed to include:

"Consumer outcomes may also mean benefits in terms of reduced costs to consumers".

Definition of Innovation. Insert underlined words

2) involves the application of novel technology, systems or processes that were not proven in the not proven in the licensee's Electricity or Gas Transmission System

at the time of submission of the RIIO-2 Business Plans.

Appendix 2 – An illustrative example is helpful, but boundary capability is not a 'typical' example if this refers to Boundary Transfer Capability, as defined in the Licence. Measuring Boundary Transfer Capability output using MW alone is not robust due to all the other factors on the network that influence this measure. This is why the volume driver for Boundary Transfer Capability (SpC3.30 Wider works volume driver) is based around the natural log of MW - i.e. $\ln(\text{MW})$. We don't believe that adjusting allowance up using $\ln(\text{MW})$ and down using MW is Ofgem's intention, given that there is no basis for this asymmetry. Suggest that the illustrative example is changed to a different output category that represents a more typical example.

Appendix 2 – opening paragraph, suggest amend as follows as we understand that such adjustments will be determined in line with the principles set out in the Price Control Deliverable Reporting Requirements and Methodology Document:

"Ofgem will determine adjustments to allowances on a case-by basis in accordance with the principles set out in this document and taking account of all relevant information."