

NGET Chapter 1 Interpretation and definitions

Condition	Comment
<p>1.1 Interpretations and Definitions</p>	<p>1.1.5 / 1.1.6 - paragraph 1.1.5 should end after the words “received or paid” in the final line. Paragraph 1.1.6 should then begin with the words “Any reference in these Special Conditions to:”</p> <p>Comments on defined terms are generally captured in the relevant condition in which the defined term in question appears. Some exceptions are captured below.</p> <p>Table, “CVP” and associated definitions. As set out on page 44 of the reasons and effects document, Special Condition 4.8 (Consumer value propositions) does not apply to NGET and the condition is “not used” in the NGET licence. Accordingly, the definitions of “CVP”, “CVP Full Delivery”, “CVP Output” and “CVP Reward” should be deleted from the table in Special Condition 1.1 in the NGET licence.</p> <p>Table, “De Minimis Business”: This definition is incorrect. Please see detailed comments at Special Condition 9.18.</p> <p>Table, “ET2 Price Control Financial Instrument” should refer to “<u>Instruments</u>”.</p> <p>Table, “<i>LOTI</i>” - We propose that “<i>transmission network</i>” (which is not defined and is not used elsewhere in the licence or the Act) should be replaced with “<u>Transmission System</u>”.</p> <p>Table, “Materiality Threshold”: only the NGET Materiality Threshold should be stated in the NGET licence.</p> <p>Table, “<i>Project Assessment Direction</i>” – We propose that the words “...<i>following a submission from the licensee justifying costs for delivering a LOTI...</i>” should be deleted. The process is set out in SpC 3.13 and it involves more than one submission, making this wording confusing.</p> <p>Table, “Environmental Value” – We propose that the definition be changed to “<u>means a measure of the level of biodiversity and the value of the ecosystem services from the natural capital assets associated with a particular land area.</u>”</p> <p>Table, “ET2 Price Control Financial Model” – We propose that part (b) of the definition is extended to include reference to the republication process.</p> <p>Table, “Fibre Wrap Replacement” - Propose that “.... conductor that have embedded fibre-optic communications capability that provide connections between electricity transmission assets” is replaced with “ <u>conductor which has optical-fibre wrapped around it to provide communications between electricity transmission assets</u>”.</p> <p>Table, “PCFM Guidance” – the reference to Special Condition 8.2 should be amended to Part <u>E</u> (currently Part F). This assumes that the paragraph re-labelling amendment we propose in our response to Chapter 8 is adopted by Ofgem.</p>

Table, "PCFM Variable Values" – the definition references "the table of that name in the ET2 Price Control Financial Model". There is no such naming in the PCFM, therefore the tables on the NGET tab should be titled as Variable Value table.

Table, "Net Zero Fund": Special Condition 5.5 does not apply to NGET so the definition of "Net Zero Fund" that cross refers to this condition should be removed.

Table, "Re-Opener": In sub-paragraph (a) the list of conditions should include Special Condition 3.5 (Net Zero and Re-Opener Development Fund use it or lose it allowance). The sub-paragraph should begin "Special Conditions 3.5 to 3.8..."

Table, "Regulatory Year": We see no rationale to define this term by including a reference to 05:00. This has not been consulted on and is a change from the current defined term "Relevant Year" which makes no such reference to 05:00. It appears that Ofgem has sought to align the definition with the definition of "Regulatory Year" that is to be used in the GT licence. The existing definition of "Formula Year" which this will replace does refer to 05:00 but this is to align with the definition of "Gas Year" and associated terms. There is no such rationale in the electricity transmission licence. If Ofgem intends to retain the change then please can it explain the reason for this.

Table, "Single Appointed Director" should refer to "managerial board of the licensee". NGET is not the System Operator.

Table, "Totex Allowance" – Both allowances subject to TIM and non-TIM allowances are currently categorised as Totex Allowances (within Chapter 3 of the SpC). This is not compatible with the current definition of Totex Allowances which refers only to those allowances "used for the Totex Incentive Mechanism". We therefore propose that the definition is amended to "means the sum of the values under the heading "Totex Allowance" in the Input sheet of the ET2 Price Control Financial Model.".

Table, "Totex Incentive Mechanism" – The definition refers to the retention of a share of over/under spend represented by the difference between the licensee's Totex Allowance and actual totex expenditure. We refer Ofgem to our previous comment on the Totex Allowance definition which encompasses both TIM and non-TIM totex. The Totex Incentive Mechanism therefore requires amendment to paragraphs (a) and (b) to clarify application only those Totex Allowances subject to TIM:

"....

by a difference between the elements of
(a) the licensee's Totex Allowance; and
(b) the licensee's actual totex expenditure
which are subject to application of the Totex Incentive Strength "

Table, "Totex Incentive Strength": only the NGET Totex Incentive Strength should be stated in the NGET licence

Table, "Use It Or Lose It Adjustment": At the end of sub-paragraph (c), delete "and " and replace with "or". The sub-paragraphs are distinct examples of the UIOLI Adjustment in the licence; they are not cumulative.

**1.2
Amendments to
Standard
Conditions**

This condition was omitted from the statutory consultation published on 17 December 2020. It was subsequently provided to NGET on 21 December 2020.

Condition Number: This is Special Condition 1.2 not 1.1. Title and subsequent paragraphs should be re-numbered accordingly.

1.2.2(f)(g) and (h) need to be re-numbered as (i)(ii) and (iii) as these three paragraphs (i)(ii) and (iii) are being inserted into the definition of “transmission business”

NGET Chapter 2 Revenue Restriction

Condition	Comment
2.1 Revenue Restriction	<p>2.1.3 –</p> <ul style="list-style-type: none"> states that “<i>The licensee must, when setting Network Charges use its best endeavours to ensure that Recovered Revenue does not exceed Allowed Revenue</i>”. This statement does not accurately reflect the licensee’s role and obligation in setting charges. NGET provides the Allowed Revenue value to NGESO with NGESO being responsible for charge setting. In addition, we propose the paragraph should be changed to include reference to the published value of the Allowed Revenue. Without this change, the Recovered Revenue may be assessed against the ‘live’ values of Allowed Revenue which is recalculated for each Regulatory Year of the price control when the PCFM is re-run. We therefore propose that paragraph 2.1.3 should be changed to more accurately reflect the charge setting process as follows: <i>“The licensee must <u>use its best endeavours to ensure that charges are set such that Recovered Revenue does not exceed the Allowed Revenue most recently published under Part B of Special Condition 8.2</u>”.</i> The reference to Part B of Special Condition 8.2 assumes that our proposal to re-label the Part headings in that condition to align with the formatting in the rest of the licence is adopted. The definition of Network Charges in Part B of SpC 1.1 also requires amending to align with the licensee’s role in the charge setting process to read: <i>“Network Charges means charges levied <u>on behalf of the licensee in response of the provision of Transmission Network Services</u>.”</i> Following this approach, the Part A heading should become “<i>Licensee’s obligation in respect of Network Charges</i>”. As above, Network Charges is defined in SpC 1.1 with reference to the provision of Transmission Network Services. Transmission Network Services is defined in Special Condition 1.1 by reference to the definition of that term in Standard Condition A1 which (in A1) then defines the term as having the meaning of that term in Standard Condition C1. Standard Condition C1 does not apply to Transmission Owners (only to the ESO) so there is no definition of Transmission Network Services in a condition that is in effect in the TO licence. This should be corrected with the definition of the term added into Standard Condition A1. <p>2.1.5 –</p> <ul style="list-style-type: none"> The definition of $ADJR_t^*$ requires amendment to reflect SpC 8.2.10 which enables republication of the PCFM and so the AR_t and $ADJR_t$ terms for use in the charge setting process. In addition, the current condition omits a definition of $ADJR_t$ in error. We propose that the definition of $ADJR_t^*$ should be changed to: <i>“means <u>the value of $ADJR_t$ most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) prior to the end of Regulatory Year t</u>”</i> (This also incorporates correcting the cross-reference, incorporating our proposed update to SpC 8.2 Parts.)

- We propose that the definition of $ADJR_t$ is then included, as follows “ $ADJR_t$ means the adjusted revenue term and is derived in accordance with Part D;...”.
- For consistency, we propose changing “ k correction term” to “Correction term”. (See comment below on heading to Part H).

2.1.6 –

- The definitions should refer to “...the Calculated Revenue term...” and “...the price index term...”.
- The definition of “Calculated Revenue” is not clear currently, since the term “Calculated Revenue” is not used in the body of the provision referred to. We propose changing to “is the amount given to R_t in Part E of Special Condition 2.1...”.

2.1.7 –

- The formula for R_t omits the BPI_t term. The formula should be corrected to read:
“ $R_t = FM_t + PT_t + DPN_t + RTN_t + RTNA_t + EIC_t + DRS_t \pm BPI_t + ODI_t + ORA_t + TAX_t + TAXA_t$ ”
- The definitions should be amended to include:
“ BPI_t means the business plan incentive term and has the value set out in the revenue sheet of the ET2 Price Control Financial Model.”
- For consistency, we propose changing “return adjustment” to “return adjustment term”. The wording of SpC 2.3.5 suggests that a return adjustment direction may be given, rather than it will be given. On this basis we also suggest changing this to “...and has the value of zero, unless the Authority directs otherwise under Special Condition SpC 2.3.5 (Return Adjustment)”.
- The additional spacing between the ODI_t and ORA_t definitions can be removed.
- For consistency, we propose “...the other revenue allowances term...”.

2.1.8 -

- Ofgem's stated intent, which we supported, through the RIIO-2 process was that the transition from RPI to CPIH indexation would result in consumers and investors being neither better nor worse off in net present value terms.

However, the inflation indexation framework currently applied does not achieve value neutrality due to significant errors in the methodology used. This is most evident in the indexation of the RAV which, by use of annual Regulatory Year average inflation values, does not allow the full entitlement to RPI indexation of the RAV up to 31 March 2021, followed by CPI indexation thereafter. Application of an annual average inflation values also causes potential issues with other elements of Allowed Revenue which are not derived directly from the RAV; these elements will require further consideration on a line by line basis. We also refer Ofgem to the paper submitted via the ENA on this issue; “RPI to CPIH Transition”, First Economics, January 2021.

Correction of this error will likely result in a significant change to Allowed Revenue. However, we recognise the complex nature of the correction and that this will require further discussions between Ofgem and the licensees

to resolve. We therefore request that Ofgem acknowledges and sets out its commitment to resolving this error prior to the publication of the licence modification in February 2021 although we recognise that a solution is likely to be implemented after this date. We believe this is an error of mathematics rather than disagreement on policy and are willing to work with Ofgem to develop the most appropriate solution.

- In the definition of i_t , for consistency we propose replacing "...on or after 2020/2021..." with "commencing on or after 1 April 2020...".

2.1.10 - The definition of $ADJR_t^*$ requires amendment to reflect SpC 8.2.10 which enables republication of the PCFM and so the AR_t and $ADJR_t^*$ terms for use in the charge setting process. The definition of $ADJR_t^*$ should be amended to

"means the value of $ADJR_t$ most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) prior to the end of Regulatory Year t ; and...". The reference to Part B of Special Condition 8.2 assumes that our proposal to re-label the Part headings in that condition to align with the formatting in the rest of the licence is adopted.

2.1.11 – We propose "...means the price index term...".

Part H, Heading – Given there is no penalty term in Part H, we propose that the heading is changed to "*Correction term (K_t)*".

2.1.12 - This sub-paragraph setting K equal to zero for the Regulatory Year commencing on 1 April 2020 should be removed.

2.1.13 –

- The opening line should be amended to remove the words "*For subsequent Regulatory Years...*" (in line with the comment on SpC 2.1.12).
- In the definition of AR_t , we propose "means the Allowed Revenue term", consistent with Part A of this condition.
- The definition of RR_t requires expanding to take into account the value of recovered revenue in the final Regulatory Year of the RIIO-T1 period which informs the K value in 2021/22:
"means the Recovered Revenue term. For Regulatory Years commencing on or after 1 April 2021, RR_t is derived in accordance with Part B. For the Regulatory Year commencing on 1 April 2020, RR_t has the value of Regulated Transmission Revenue as defined in Part B of Special Condition 1A (Definitions and Interpretation) of this licence as in force on 31 March 2021."
- In the definition of I_t , for clarity we propose adding at the end "...in Regulatory Year t ". Otherwise the application of the defined term SONIA is unclear.

2.2 Tax Review Adjustment (TAXAt)

1.1 Part B - includes the definition for Actual Corporation Tax Liability but does not clarify that the liability is only the portion relating to NGET. This definition should be amended as follows:

“means the value as shown in the licensee’s company tax return (CT600) as submitted to Her Majesty’s Revenue and Customs, relating to the licensee.”

2.2.1 – It is incorrect to refer to the purpose of the condition being simply to “*determine*” the term TAXAt, since the term is zero unless directed. We propose changing to “...calculate any adjustment to...”.

2.2.2 and **2.2.4** – We propose changing these to read “...*material and unexplained differences...*” to clarify that a review may only be triggered where a material difference remains unexplained.

2.2.5(c) – As noted previously, the obligation to ensure that the Appropriately Qualified Independent Examiner completes the work within scope and on time is an absolute obligation on the licensee relating to a third party, whose actions are not fully on the licensee’s control. We do not consider that an absolute obligation is proportionate where licensees may be unable to comply through no fault of their own. We propose that the licensee should be required to use “*reasonable endeavours*”. In addition, in this sub-paragraph, the reference to “*examine*” should be changed to set out the full defined term.

2.2.6(a) – For consistency, we propose “...*any adjustment to the value of the term TAXAt...*”.

2.3 Return Adjustment (RTNA_t)

1.1, Part B – We do not consider that the definition of “*operational performance*” in SpC 1.1 is clear. We propose that this should be changed to “*means the operational performance value for the licensee, in monetary terms, derived in accordance with the ET2 Price Control Financial Model*”.

General – the calculation of RTNA_t uses operational performance terms, OPM_t and OPP and an average RAV value, RAV_L which the definitions state have the values defined in the Price Control Financial Model. The PCFM published as part of the statutory consultation does not include these terms. We are aware that the PCFM is intended to include Regulatory Financial Performance Reporting which we assume will include calculation of these terms. However, the lack of a complete PCFM at this stage means that we are unable to provide a complete response on the licence drafting or the derivation of these values. We therefore comment on the licence drafting in isolation based without making further assumptions or inferences about the material not yet published. Therefore, we are not able to comment whether the licence drafting achieves the effect stated by Ofgem in the Final Determinations.

- The calculation of the Return Adjustment sources values from the Price Control Financial Model. The version of the PCFM to be used for this calculation is not specified. Further clarification is required from Ofgem and should be included in the licence to confirm that the version PCFM used to calculate the Return Adjustment should reflect RIIO-2 close out items.
- The variables OPM_t and OPP do not appear in the PCFM and so it is not clear how they are calculated. The algebra calculates a singular RTNR value at the end of the price control period using an average RAV value over the price control period. This is then phased across the Regulatory

Years according to the performance in individual years. Based on our understanding of the drafting, without having access to the relevant sections of the PCFM, this approach means that the return adjustment will be understated with only a single year's adjustment applied across the period.

2.3.1 – If Ofgem will not necessarily make an adjustment, this should be changed to “...calculate any adjustment to the term $RTNA_t$...”.

2.3.5 – For consistency, we propose that “...the term $RTNA_t$...” is used. In addition, reference is made to further explanation or elaboration within the Price Control Financial Handbook. We note that there is currently no reference to the $RTNA_t$ term in the Handbook.

2.3.7/2.3.8 - include the calculations applied to derive the value of the return adjustment. The calculation used to derive RTNR is dependent on whether Operational Performance is greater than or equal to zero or whether it is less than zero. Based on the equation in paragraph 2.3.6, Operational Performance can be implied as an annual value specific to each Regulatory Year. The use of an annual Operational Performance in turn implies that the Return Adjustment (RTNR) is calculated on an annual basis. However, the drafting in paragraph 2.3.6 phases the RTNR term across the Regulatory Years according to the performance in individual years.

The approach set out in the Final Determinations is that the return adjustment is to be made based on the performance value across the price control period rather than based on annual values.

2.3.7/2.3.8 - The equations used to calculate the RTNR term include summation terminology. However, these terms are unbounded and so it is not clear how these calculations are intended to be applied.

NGET Chapter 3 Totex Allowance Adjustments

PCD Formulae & fit with PCFM

Prior to our response on individual licence conditions within this Chapter, we wish to highlight generic issues we have identified with respect to the structure of the PCD formulae used throughout Chapter 3 and how the algebraic terms are used in the PCFM. Some of the NGGT and NGET Chapter 3 PCD Special Conditions adopts a drafting structure with a formula typically in the following format:

$PSUP_t = (PSUP_{At} + PSUP_{Ot}) - PSUP_{Rt}$ (this example is taken from the physical security re-opener and PCD)

We have identified a number of instances in which the licence drafting is not consistent across the portfolio of PCDs and is not dovetailed with the way the PCD terms are used in PCFM. If these issues are not corrected, the consequences include: the incompatibility between licence and PCFM means the intended calculations of PCD allowances & adjustments is not clear; this could lead to incorrect inputs to the model, erroneous double claiming of allowances, and/or application of incorrect capitalisation rates.

Resolution of these issues will require amendments to multiple licence conditions and amendments to the PCFMs. These must be dovetailed so that the correct licence terms are referenced in the correct cells of the PCFM. On 11 January 2021 we provided a paper to Ofgem setting out in full these concerns and our proposals for how the formulae, definitions and PCFM can be corrected. The contents of this paper are incorporated here in this generic section prior to our detailed comments on each Special Condition.

Shortcomings of the current Ofgem approach (using the example of Special Condition 3.4 Physical Security):

- The definition of $PSUP_{At}$ does not work because the algebraic term $PSUP_{At}$ pertains to a single Regulatory Year t , whereas the “sum of allowances in Appendix 1” is a summation of values over five Regulatory Years $t=1$ to $t=5$.
- Inconsistency. Some PCD formulae include a defined term for the reopener adjustment (eg $PSUP_{Ot}$) but in other instances (eg Cyber and FIOC) this term is not included. We support the inclusion of the reopener adjustment terms, but this should be applied consistently across all relevant PCDs. Currently it is not and this should be corrected.
- Where the reopener adjustment term is adopted the definition currently only attaches to one of the reopener triggers. Instead the definition should attach to all limbs by which the reopener adjustment may arise e.g. first/second reopener application by the licensee, Authority triggered reopener, and close-out reopener (where applicable).
- Lack of clarity & consistency as to whether the intended drafting convention is for the PCD Appendix 1 to be ambulatory (i.e. “as amended from time to time”, e.g. by reopener directions. This may be what is intended e.g. by Special Condition 3.4.13) or whether that definition is intended to be static (this appears to be what is intended e.g. by the $PSUP_{At}$ definition which refers to “Appendix 1 on 1 April 2021” in the NGGT licence). In NGs proposed examples below we have adopted a convention of the initial Appendix 1 being static and that reopener directions will clearly distinguish changes to initial baseline scope from newly introduced uncertainty mechanism scope.

- The same term is used to mean different things in licence drafting. The PCD adjustment term (eg PSUPR_t) is currently used to mean both the adjustment arising from an Authority triggered reopener (Part D) and the adjustment arising from PCD assessment (Part E), but these are different commodities arising from different processes and will have different values. This may be a drafting / typo error and we refer to this in our detailed comments on the relevant conditions below. We think Ofgem had intended PSUP_{Ot} to point to Parts C and D (licensee and Authority triggered reopeners) and PSUPR_t point to Part E (PCD assessment) only. As another example, the term An is used repeatedly in the NGET PCD Special Conditions to refer to different unit costs.
- Same term used to mean different things in PCFM. For example, in the draft PCFM NGGT TO tab, PSUP_t is used in cell H20 to refer to the baseline PSUP allowance and again in cell H40 to refer to the PSUP reopener adjustment.
- In the PCFM different capitalisation rates apply to baseline allowances and to reopener allowances. We assume it is intended that the PCD assessment process should be capable of adjusting both baseline allowances and reopener allowances while ensuring the different capitalisation rates are honoured. It follows that the PCD adjustment term (PSUPR_t) cannot be expressed in a single algebraic term in the PCFM. This could be remedied by creating two separate PCFM terms for the PCD adjustment.
- The current situation is that the licence drafting and draft PCFM are not compatible and correction is required in order to address this.

Consequences of the draft Ofgem approach

The inconsistency and ambiguity of the current licence drafting could result in the following chain of consequences:

- Incorrect inputs in the blue box variable values as a result of following licence drafting and PCFM structure – this could lead to erroneous double claiming of allowances.
- Incorrect allowance inputs leading to application of the capitalisation rate not originally intended for a given mechanism (the capitalisation rates are different for baseline allowances and reopener allowances).
- Errors in the allowed revenue calculation for any given regulatory year.
- Errors in the RoRE calculation (when included in the PCFM).

Ofgem Statutory Consultation drafting example – Special Condition 3.4 Physical Security

(Taken from the NGGT draft licence condition)

The value of PSUP_t is derived in accordance with the following formula:

$$PSUP_t = (PSUP_{At} + PSUP_{Ot}) - PSUP_{Rt}$$

where:

PSUP_{At} means the sum of allowances in the first nine rows of Appendix 1 on 1 April 2021, which is £41.18m;

PSUP_{Ot} means the adjustment to allowances made in accordance with Part C [we believe this should refer to Parts C and D as both relate to re-openers]; and

PSUPR_t has the value of zero unless otherwise directed by the Authority in accordance with Part D [we believe this should refer to Part E (PCD assessment)].

NG Suggested way forward

We have created two worked examples with revised drafting to correct the shortcomings identified above. The first example deals with the situation if the PCD adjustment term only applies to the baseline allowance and attracts the prevailing capitalisation rate associated with the baseline allowance. The second example accommodates the situation where the PCD adjustment process is capable of adjusting both the baseline allowance and the reopener allowances while respecting the different capitalisation rates applicable to each.

Example 1 NG Proposed drafting – Physical Security (if the PCD adjustment process only applies to the baseline allowance and attracts the prevailing capitalisation rate associated with the baseline allowance)

The value of PSUP_t is derived in accordance with the following formulae:

$$PSUP_t = PSUPX_t + PSUPO_t$$

$$PSUPX_t = PSUPA_t - PSUPR_t$$

where:

PSUPA_t means the sum of initial allowances for baseline scope for Regulatory Year t set out in Appendix 1 on 1 April 2021^{1,2};

PSUPO_t means the adjustment to allowances directed by the Authority as a result of re-openers including those triggered by the licensee (Part C), triggered by the Authority (Part D) and [where a close out re-opener trigger is relevant]triggered at close-out (Part XX); and

PSUPR_t has the value of zero unless otherwise directed by the Authority following its assessment of the Price Control Deliverable (Part E).

In keeping with these changes, the PCFM should be amended so that, for example in the NGGT TO tab, PSUPX_t is inserted in cell H20 to refer to the baseline PSUP allowance and PSUPO_t is inserted in cell H40 to refer to the PSUP reopener adjustment.

Example 2 NG Proposed drafting – Physical Security (where the PCD adjustment process is capable of adjusting both the baseline allowance and the reopener allowances while respecting the different capitalisation rates applicable to each)

The value of PSUP_t is derived in accordance with the following formulae:

$$PSUP_t = PSUPB_t + PSUPU_t$$

$$PSUPB_t = PSUPA_t - PSUPRA_t$$

$$PSUPU_t = PSUPO_t - PSUPRO_t$$

where:

¹ Note it is not necessary to include any monetary value in this written definition. The monetary values are stated in Appendix 1.

² Where Ofgem FD has imposed an efficiency challenge, the values in Appendix 1 should be quoted on a post-efficiency basis

PSUP_t means the final allowance for the physical security Price Control Deliverable term for Regulatory Year t at RIIO2 close out;

PSUPB_t means the component of PSUP_t attributable to baseline scope, in relation to which Capitalisation Rate 1 applies;

PSUPU_t means the component of PSUP_t attributable to uncertainty mechanism scope, in relation to which Capitalisation Rate 2 applies;

PSUPA_t means the sum of initial allowances for baseline scope in Regulatory Year t set out in Appendix 1 on 1 April 2021;

PSUPRA_t has the value of zero unless otherwise directed by the Authority following its assessment of the Price Control Deliverable (Part E) and is the component value of the direction applying to baseline scope;

PSUPO_t means the sum of allowances for uncertainty mechanism scope in Regulatory Year t directed by the Authority as a result of re-openers including those triggered by the licensee (Part C), triggered by the Authority (Part D) and [where a close out re-opener trigger is relevant] triggered at close-out (Part XX); and

PSUPRO_t has the value of zero unless otherwise directed by the Authority following its assessment of the Price Control Deliverable (Part E) and is the component value of the direction applying to uncertainty mechanism scope.

Capitalisation Rates 1 and 2 use the PCFM terminology for the rates applied to the non-variant / PCD and uncertainty mechanism totex allowance categories, respectively.

In keeping with these changes, the PCFM should be amended so that, for example in the NGGT TO tab, PSUPB_t is inserted in cell H20 to refer to the element of PSUP allowance in respect of baseline scope, and PSUPU_t is inserted in cell H40 to refer to the element of PSUP allowance in respect of uncertainty mechanism scope.

Application

The instances in which this revised approach described above should be applied **for NGET** are:

- 3.2 Cyber OT (PCD & Reopener)
- 3.3 Cyber IT (PCD & Reopener)
- 3.4 Physical Security (PCD, reopener and close out)
- 3.10 Visual Impact Mitigation (PCD & Reopener)
- 3.13 Large onshore transmission investment (re-opener)
- 3.15 Pre-construction Funding (PCD & Reopener)

Calculation of values used in PCD terms

Since the publication of Final Determinations on 8th December and the sharing of supporting models, we have been working closely with Ofgem to reconcile certain values set out in the Final Determinations. Our ability to respond to the Statutory Consultation on the licence, and in particular to comment on the values included in Appendix 1 of the PCD Conditions, is dependent upon a clear understanding of Final Determinations, including both the relevant Annex and associated models, which we currently do not have.

At the time of responding to this statutory consultation, we have made significant progress in understanding the underpinning data linked to asset volumes and associated allowances. Both NGET and Ofgem remain fully committed to work together to reach a common understanding of volumes and allowances in advance of Ofgem's licence modification direction. Once this has been achieved, we will be able to comment effectively on the values contained in Appendix 1 of the PCD conditions. At this point in the process we are unable to confirm the allowed unit costs, allowance values and profile being consulted on, nor are we able to propose alternate values. It is critical that these matters are resolved ahead of Ofgem's licence modification direction in respect of the NGET licence and we will continue to work with Ofgem to achieve this.

This affects the following conditions:

- 3.1 Baseline Network Risk Output
- 3.4 Physical security price control deliverable
- 3.15 Pre-construction funding re-opener and Price Control Deliverable
- 3.22 Instrument Transformer Price Control Deliverable
- 3.23 Bay Assets Price Control Deliverable
- 3.25 Overhead Line Conductor Price Control Deliverable
- 3.26 Substation auxiliary systems use it or lose it allowance
- 3.27 SF6 asset intervention Re-opener and Price Control Deliverable

Detailed Comments on each Special Condition

Our detailed comments on each Special Condition in Chapter 3 follow in the table below

Condition	Comment
3.1 Baseline Network Risk Output	<p>3.1 - The licence condition does not state the Baseline Network Risk Output(s) required to be delivered by the company in T2, it only states the values of the expenditure. For transparency, Appendix 1 should contain the outputs to be delivered by the company in each of the 5 categories agreed (OHL Fittings, SGTs, Reactors, Cables, Circuit Breakers)</p> <p>3.1.9(b) - The condition states the authority will direct how costs should be broken down in the closeout report. The costs will be broken down as per RRP, and will not have the possibility of being affected any other way unless the authority directs prior to the start of T2. A direction made during the T2 period will not allow historic data to be captured.</p> <p>Appendix 1 The NARMt values in the blue box inputs do not reconcile to the values within Appendix 1 of SpC 3.1. This could be because RPEs are included in Appendix 1</p>

value but are listed separately in the PCFM, this make traceability difficult. This is also inconsistent with NGGT's licence and PCFM, where both values are quoted excluding RPEs, making the traceability much clearer. NGET requests that the NARM numbers in Appendix 1 are quoted exclusive of RPEs.

We understand that Ofgem were not able to reconcile the NARM risk workbook with the PAM hence we have requested to re-submit the risk workbook by the middle of February. The appendix should reflect the values in the updated risk workbook which are not currently reflected in the licence.

There is no provision in the licence condition to adjust allowances for over/under delivery. There is a mechanism for calculation included in the NARM Annex; this needs to be enshrined in a formula in this Licence condition. Furthermore, "unit costs" need to be agreed and recorded in the NGET Redacted Information Document, as is being done for non-NARM assets covered by mechanistic PCDs.

3.2 Cyber resilience operational technology Re-opener and Price Control Deliverable (CROt)

3.2 General: Issues Log. We note that the issues log included with the Statutory Licence Consultation (file "3.2 3.3 Cyber_ ITOT.xlsx") has not been updated to reflect our most recent comments submitted since the log was last issued by Ofgem at the November Licence Drafting Working Group. Therefore, where relevant we have raised the same unanswered points again here.

3.2.1 - Definition of Totex Allowance. SpC 3.2.1 states that CROt contributes to the Totex Allowance. Totex Allowance is defined as "means the allowance used for the Totex Incentive Mechanism and is the sum of values under the heading 'Totex allowance' in the input sheet of the ET2 Price Control Financial Model." The input sheet of that model lists both Resilience non-TIM and Resilience TIM terms contributing to Totex allowance. The inclusion of a non-TIM CROt term within Totex Allowances therefore contradicts Ofgem's Final Determinations Core Document decision page 72 that "All cyber resilience OT allowances are excluded from the TIM". If the sentence in 3.2.1 "This contributes to the calculation of the Totex Allowance" is to be retained then we propose the definition of Totex Allowance should be clarified and changed accordingly to exclude the reference to the Totex Incentive Mechanism. Please see our proposals for updating the definition of Totex Allowance and TIM in our comments on definitions in Special Condition 1.1 chapter 1.

3.2.4 - We have identified generic issues with the structure of the PCD formulae and incompatibility with use of the formulae terms as inputs to the draft PCFM. Our comments have been shared with Ofgem in advance of this consultation response and are repeated at the beginning of this Annex. Those generic comments apply to this Part A.

3.2.7(a) - states that the licensee must, between 1 April 2021 and 8 April 2021, submit to the Authority a Cyber Resilience OT Plan. In a bilateral meeting on 11 January 2021 Ofgem clarified that in the case of NGET and NGGT (where comprehensive original plans were submitted in December 2019) the policy intent is not to require us to submit restated details of the original Cyber Resilience Plan that have been approved in Final Determinations. We therefore request that 3.2.7(a) is either removed from the NGET and NGGT licences or amended to qualify that this need not be provided in circumstances where the licensee has already submitted a Cyber Resilience Plan in December 2019. (We appreciate that not all licencees did submit Cyber Resilience Plans in 2019). This could be achieved by a modification such as "a Cyber Resilience OT Plan

where the licensee has not already submitted such a plan to the Authority in December 2019”

3.2.8 (and others). - The phrase “improved CAF Outcomes on the licensee's network and information systems” is used in 3.2.8, 3.2.9(a)(ii), 3.2.10(a), 3.2.12(c), 3.2.17(c) and also in the definition of Use It or Lose It Adjustment in Special Condition 1.1. This drafting is imprecise because the CAF Outcomes are set by NCSC and it is not the role of licensees to “improve” upon NCSC’s outcomes. We propose that it would be more accurate to rephrase the relevant sections referred to above so as to read: “improved status of the licensee’s network and information systems with respect to CAF Outcomes.”

3.2.16 - begins “The Authority will direct a value...” We propose that this should be changed to “The Authority will consider directing a value...” This is necessary for clarity and consistency with the other PCD conditions (e.g. 3.3.16, 3.4.11)

3.2.16 - The Cyber OT UIOLI + PCD assessment process is a two stage process. Stage 1, the PCD assessment, is carried out at project level and subsequently stage 2, the UIOLI assessment, is carried out at total UIOLI pot level. These details are important to the intended meaning of the licence condition, but at present they are not written in the licence and can only partially be construed by reference to the Final Determinations Core Document 7.36-7.39 and the draft PCD Reporting Requirements and Methodology Document (in relation to which we identify additional cyber concerns below). The UIOLI pot value is not currently defined in Appendix 1. In order to improve clarify we have the following suggestions for consideration:

- (i) Amend drafting of 3.2.16(a) to clarify that this is an adjustment at project level, and amend 3.2.16(b) to clarify that this is an adjustment at the level of the total UIOLI pot that will take place as part of RIIO-2 close-out;
- (ii) Identify the value of the UIOLI pot in Appendix 1 e.g. by inclusion of an equation in the format:

$$UIOLI\ pot = \sum_{t=1}^{t=5} CROR_t \leq [insert\ \pounds\ value\ from\ FD]$$

- (iii) Consider reflecting these unique features of Cyber OT UIOLI+PCD in the PCD Reporting Requirements and Methodology Document; and
- (iv) We propose that, 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 should be created for Non-TIM totex to clearly separate out this new category of totex.

3.2.16(a) - refers to an adjustment in accordance with the PCD Reporting Requirements and Methodology Document (PCD Guidance). It ought to be clearly defined which elements of the PCD Guidance apply to Cyber or which elements are carved out as not applying. At present, the relevance of the PCD Guidance to Cyber PCDs is unclear or contradictory in two respects:

- (i) the draft PCD Guidance requires a Basic PCD Report to be submitted by 31 July. It is unclear if it is intended that this Basic PCD Report is required as well as the specific Cyber PCD reporting regime set out in 3.2.17. We propose the licence drafting and PCD Guidance 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 (in relation to which we propose the

reporting dates are aligned with RRP reporting dates – see our separate comments on Appendix 2 below); and

- (ii) we propose the licence drafting and PCD Guidance should be amended to clarify the intended unique features of the Cyber OT UIOLI + PCD regulatory arrangements. Namely the two-stage assessment process where stage one is at project level and stage two is at UIOLI pot level.

3.2.16 - definition of UIOLI Adjustment for NGET has four limbs (a), (b), (c) “and” (d). We propose this should be changed to read (c) “or” (d) since it is not intended that all limbs be satisfied simultaneously.

Appendix 1. The draft Appendix 1 points to the Table of Cyber OT PCDs set out in Ofgem’s Final Determinations document dated 8 December 2020. We have identified both error corrections and clarifications of control, outputs and benefits in that document. We have discussed these issues, and the general principles of approach for PCD Tables, with Ofgem in meetings on 11th and 13th January 2021. Based upon feedback from those meetings we attach with this response our confidential Annex NGET Cyber Resilience OT PCD Table setting out our proposed amendments to the document referred to in Appendix 1 as setting out the relevant PCD Table. The reasons for each change is denoted e.g. “error correction” or “clarity of control/output/benefit.”

Appendix 2 Reporting dates. The proposed reporting dates (e.g. submit report by 30 April covering the prior period 1 October to 31 March) would not allow sufficient time (one month between end March and end April) for internal compilation, data assurance and approval of outturn PCD progress reporting. Actual costs incurred up to the end of March would typically not be available from our finance processes until end April. We propose the reporting dates should be shifted back by two months to align with the RRP reporting timescale. It will be more efficient for the output reporting to be in-step with the finance reporting. We propose Appendix 2 should be amended to: submit report by 31 July covering the prior period 1 October to 31 March and submit report by 31 January covering prior period 1 April to 30 September.

3.3 Cyber resilience information technology Re-opener and Price Control Deliverable (CRITt)

3.3 General: CAF Outcomes – There is contradictory Ofgem position & drafting in relation to the Cyber IT PCD. We note that in its response in cell I49 of the Cyber IT issues log Ofgem has stated: “CAF outcomes don’t apply to Cyber IT...” It follows that Ofgem has been careful not to use the phrase “CAF Outcomes” in the body of Special Condition 3.3. However, this conflicts with the 8th December Final Determinations document “RIIO-2 Final Determinations - NG Group Information Technology Cyber Resilience” page 7 where Ofgem states that improved CAF Outcomes are an output of the Cyber IT plan. Furthermore, the Cyber resilience IT PCD tables include references to the specific CAF Outcomes to which the approved investments contribute. In the case of National Grid we propose that Cyber IT references to CAF are appropriate. We propose that references to CAF Outcomes should be included in Special Condition 3.3 in a similar manner to that already adopted in Special Condition 3.2 and incorporating our further proposals made in relation to 3.2.8 above in respect of the use of the term “improved CAF Outcomes”.

3.3.4 - We have identified generic issues with the structure of the PCD formulae and incompatibility with use of the formulae terms as inputs to the draft PCFM. Our comments have been shared with Ofgem in advance of this consultation

response and are repeated at the beginning of this annex. Those generic comments apply to this Part A.

3.3.10 - Typo, refers to “OCD Table”, should be corrected to “PCD table”

Appendix 1 Should only refer to the NG Group IT Cyber Resilience Document. Reference to the SHETL document should be removed from the NGET licence.

Appendix 1. The draft Appendix 1 points to the table of Cyber IT PCDs set out in Ofgem’s Final Determinations document dated 8 December 2020. We have identified both error corrections and clarifications of control, outputs and benefits. We have discussed these issues, and the general principles of approach for PCD Tables, with Ofgem in meetings on 11th and 13th January 2021. Based upon feedback from those meetings we attach with this response our confidential annex NG Cyber Resilience IT PCD Table setting out our proposed amendments to the Appendix 1 PCDs tables. The reasons for each change is denoted e.g. “error correction” or “clarity of control/output/benefit.”

Appendix 2 Reporting dates. The proposed reporting dates (e.g. submit report by 30 April covering the prior period 1 October to 31 March) would not allow sufficient time (one month between end March and end April) for internal compilation, data assurance and approval of outturn PCD progress reporting. Actual costs incurred up to end of March would typically not be available from our finance processes until end April. We propose the reporting dates should be shifted back by three months to align with the RRP reporting timescale. It will be more efficient for the output reporting to be in-step with the finance reporting. We propose Appendix 2 should be amended to: submit report by 31 July covering the prior period 1 October to 31 March and submit report by 31 January covering prior period 1 April to 30 September.

3.4 Physical Security Re-opener and Price Control Deliverable (PSUPt)

3.4 General: Issues Log. We note that the issues log included with the Statutory Licence Consultation (file “3.4 Physical security.xlsx”) has not been updated to reflect our feedback in response to the informal licence drafting consultation. Therefore, where relevant we have raised the same unanswered points again here.

3.4.4 - We have identified generic issues with the structure of the PCD formulae and incompatibility with use of the formulae terms as inputs to the draft PCFM. Our comments have been shared with Ofgem in advance of this consultation response and are repeated at the beginning of this annex. Those generic comments apply to this Part A.

3.4.4 - The definitions of PSUPOt and PSUPRt do not point to the correct parts C, D & E. We believe that it is intended that the PSUPOt term captures both licensee triggered and Authority triggered reopeners. Our proposed corrections are:

- The definition of PSUPOt in 3.4.4 should be amended as follows: “PSUPOt means the adjustment to allowances made in accordance with Part C and Part D.”
- In the Header “Part D: Authority triggered Reopener (PSUPRt)” the term PSUPRt should be replaced with PSUPOt
- The definition of PSUPRt in 3.4.4 should be amended as follows: “PSUPRt has the value zero unless otherwise directed by the Authority following its assessment of the Price Control Deliverable, Part E.”

Close-out. The Final Determinations Core Document 7.100 decided that there should be two physical security reopeners, at year 3 and at RIIO-2 close-out. Only the first of these reopeners has been reflected in the drafting at Part C, condition 3.4.7. The licence drafting is silent with regard to the reopener at close-out and therefore does not give effect to the Final determinations in this regard. It is therefore currently not specified how the close-out reopener process will operate, how it may impact the formula in 3.4.4, how it may interact with Part E, PCD assessment or Part F Authority Direction. The current drafting therefore does not reflect the policy decision from Final Determination. The drafting should be amended to implement the Final Determinations decision in this context and provide explicit recognition that PSUP allowances are subject to a reopener at RIIO2 close-out. This could be achieved by expanding the definition of reopener events in Part C. We note that there is precedent for the RIIO-2 licence drafting to recognise RIIO-2 close out; for example NARMS, Special Condition 3.1.9 explicitly includes a requirement to provide a close out report on or before October 2026. The NARMS situation is not identical to PSUP but it illustrates the point that the licence should not be silent on the relevance of a re-opener closeout.

3.4.8 - For consistency with other PCDs insert “to the Authority” after “in writing”.

3.4.10 - in line 2, after “Appendix 1” insert “without an application being made under paragraph 3.4.6 where there have been changes to the scope....” This will align with the drafting in the NGGT licence

■	■	■	■	■	■	■	
■	■	■	■	■	■	■	
■	■	■	■	■	■	■	
■	■	■	■	■	■	■	

3.5 Net Zero and Re-opener Development Fund use it or lose it allowance (RDFt)

The term “Net Zero and Re-opener Development Fund” is used throughout the condition, it should refer to the defined term “Net Zero And Re-opener Development Fund”.

3.5.8(c) - is not clear as drafted suggested this should be amended to “the reporting obligations in respect of ~~which~~ expenditure incurred in relation to Net Zero And Re-opener Development Fund which the licensee must meet.”

We look forward to the publication of the Net Zero and Re-opener Development Fund Governance Document.

Placement of RDF in licence It is unclear where RDF should sit in the licence, the Final Determinations cores document states that this UIOLI allowance will be associated to Licence condition 5.4, this intent is not reflected in the licence with the RDFt term being treated as a totex allowance rather than included in other revenue. We propose that Ofgem enact the policy as set out in Final

	<p>Determinations, which would require the RDF_t term to be moved from chapter 3 to chapter 5 with the RDF_t term being added to the formula defining ORAt. The PCFM also requires amendment to move the RDF_t from the Totex Allowance Variable Value inputs (NGET tab, row 39) to the Other Revenue Allowance Variable Value inputs (NGET tab, row 122). Table 3.1 in PCFH will then also require aligning with the approach adopted in the PCFM by moving the RDF_t from the Variant Totex Allowances category to the Other Revenue Allowances category.</p>
<p>3.6 Net Zero Re-opener (NZt)</p>	<p>3.6.6(a) - This paragraph provides for directing any adjustments to PCFM Variable Values. As that term is defined in Special Condition 1.1, the definition assumes that pre –existing Variable Values exist in the PCFM (and which can then be adjusted under 3.6.6(a).</p> <p>However, it may be the case that, following a Net Zero reopener, a direction under Part C may need to consider the introduction of a new PCFM Variable Value (given the nature of the Net Zero reopener) rather than the adjustment to a pre-existing term. It is suggested that the drafting is amended to reflect this position.</p> <p>General: It is not clear how Ofgem will trigger or provide notice that a reopener window is being created.</p>
<p>3.7 Non-operational capex IT Reopener (NOITt)</p>	<p>3.7.5 - Date differs to FD's 1 April 2021 and 7 April 2021 in licence 1 April 2021 and 8 April 2021 in FD's</p> <p>3.7.6 – We remain of the opinion that this condition should clearly reference the published re-opener guidance and the applicable Appendix for the IT & telecoms re-opener. The current arrangement risks being duplicative and creating a disparate set of obligations on networks. This could lead to networks unintentionally failing to meet all requirements placed on them across the licence and guidance document.</p>
<p>3.8 Coordinated Adjustment Mechanism Re-opener (CAMt)</p>	<p>3.8.9(c) - In response to the September consultation we stated:</p> <p>“We reiterate here a concern that we raised after the early August LDWG in relation to the scope of an Authority direction under Part D. We would question whether implementing a transfer of a CAM activity obligation can and should be achieved by direction. In particular a transferee Partner Licensee may not have an existing /suitable output condition into which to insert the transferred obligation and associated allowance. The introduction of such a new condition would have to be achieved by way of a statutory licence modification and not via a direction. The drafting should provide for such a scenario. Following the LDWG Ofgem said that it would consider the point further.”</p> <p>In response in the Issue Log Ofgem has stated:</p> <p>“We consider this may be done by direction, given the process outlined in the licence regarding consultation.”</p> <p>We do not believe that this response is satisfactory. 3.8.9(c) provides that the Authority may direct any amendments to the outputs and delivery dates</p>

established by the special conditions of this licence and that of the Partner Licensee. This drafting assumes that there are pre-existing licence conditions that can be amended by direction. As highlighted by our original comment, this may not be the case where a new CAM activity is being transferred to a Partner Licensee for the first time. In the first instance the Special Condition dealing with the CAM Activity will need to be introduced into the licence of the Partner Licensee. This must be done by licence modification and associated statutory consultation and cannot be achieved by a direction (which may be the case where a pre-existing Special Condition is being modified). This drafting needs to be corrected accordingly.

3.9 Wider Works Price Control Deliverable (WWt)

3.9.6 - it is not clear what this statement adds when Appendix 1 already identifies the codes as NOA codes.

Appendix 1 (list of projects) – The criteria for inclusion in the PCD is not clear to us. A definitive, agreed list is required. We assume that it should be all WW projects delivering an output in T2. There are 3 schemes in FD but not in the licence (KLRE/HSS2/MHPC. There are 10 schemes in the licence but not in FD (e.g. NBRE/SER2/PEM1/PEM2).

Appendix 1 (non-PCD baseline allowances) – Subject to above comment, we are assuming that all non-PCD baseline projects are funded through the bridging fund? The position is not clear.

Appendix 1 (allowances) – We cannot reconcile the allowance numbers; please clarify the steps taken to arrive at these numbers.

Appendix 1 (output) – Due to the fact that the detail of each project is listed in the published 2019/20 NOA and allowances are automatically removed when the project (and therefore NOA code) changes, the level of project detail is not required. Also, given baseline allowances are MW agnostic, coupled with the intrinsic variability of MW capacity delivered, we propose reference to MW is removed. It is unlikely the PCD would ever be “Fully Delivered” due to this variability, undermining the agreed ex-ante approach for WW baseline. Suggest delivery of baseline projects as defined by the NOA code and Delivery Date constitutes Full Delivery of the WW PCD and provides consumers with no less protection than the detailed approach.

3.10 Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance (VIMEt and EPIt)

General - there is no provision for adjustment of delivery dates that could be cost neutral.

3.10.6 - the licensee does not make an application under Part B, we believe the correct reference is to Part D.

3.10.8 - no reason has been given as to why a best endeavours standard is required. Considering the cost implications of this higher level of performance and Ofgem’s ability to recommend “alternative revisions” to the Mitigating Pre-existing Infrastructure Policy, we consider that a reasonable endeavours standard is appropriate.

3.10.10 – there is no timeframe given for when the policy would be approved by Ofgem

3.10.16(b) - does not appear to make sense as drafted, suggested this should be amended to “an event specified by the Authority in the direction that added the Visual Impact Mitigation Price Control Deliverable to Appendix 1 or added the Enhancing Pre-existing Infrastructure Project to Appendix 3 has occurred.”

3.10.19(b) and (c) - incorrectly reference Appendix 4, they should refer to Appendix 3.

3.10.20 – there is no reference to the reopener guidance, which is important to set out the timings for Ofgem decision

3.11 Generation Connection volume driver (GCET)

We have noted that Generation Connection Capacity is defined as Connection Entry Capacity (CEC) as set out in the CUSC. This represents a marked change from the definition in the current licence and reporting arrangements, which are based upon the contractual transmission rights, i.e. Transmission Entry Capacity (TEC). It's unclear whether this is a deliberate change in policy and propose that Generation Connection Capacity continues to be defined as TEC in the NGET RIIO T2 licence.

The definition of Generation Connection Capacity and Generation Connection should also include interconnectors and storage. We would suggest that a similar approach to that taken in the existing definition of “Relevant Generation Capacity” in the current electricity transmission licence is followed.

We note the algebra in this condition does not seem to enact the policy on the Annual Iteration Process correctly. We understand the totex adjustment at AIP should be performed against our latest forecast of output to be delivered over the period. The terms BCO_p and AGC_p, on the other hand, continue to describe the adjustment against the baseline output set out in Appendix 2, which is fixed. We believe this requires amendments to the definition of various terms to describe, for example, “forecast to deliver” rather than “delivered” and that the adjustment occurs against our revised forecast of output instead. This is the same for SpC 3.12 and SpC 3.30.

We also note the current licence condition creates the risk of double funding for baseline output in Appendix 2 that is also subject to PCD. To enact the policy stated in FD (no interaction between the two mechanisms) we believe the PCD output should be removed from Appendix 2 and / or a clause should be added to make explicit no PCD output will be subject to the volume driver. See comment to SpC 3.20. The same applies to SpC 3.30.

3.11.3 – Enacting this clause will require an additional column and row for t=2027/28 and p=2027/28 in Appendix 1

3.11.4 – Following the legal separation of the Electricity System Operator (ESO), a new process for contracts that have been terminated by the customer has been introduced. For the avoidance of doubt, these arrangements mean that we would seek to recover the cost incurred up to the point of termination by means of finding a different use for the assets. Any difference between this and the actual cost incurred is then be recovered from the ESO. Therefore, we believe the TPG process might not be needed for Transmission Owners in RIIO T2.

3.11.4 – ‘p’ notation is defined as “the Regulatory Year in which the Generation Connection is delivered”; propose that this is re-worded to “.is delivered or forecasted to be delivered” to align with our understanding of policy intent that

the totex adjustment should be based on our latest forecast of output, as set out above.

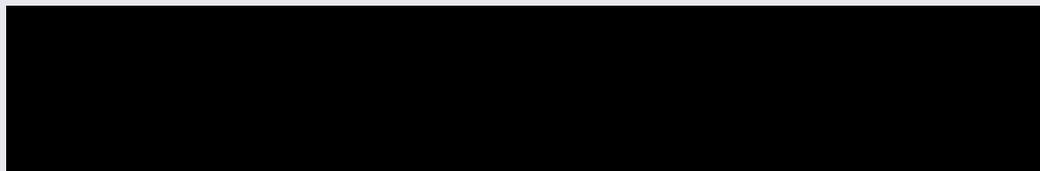
3.11.4 – Suggest ‘t’ notation is defined as “...Regulatory Year for which the allowance is calculated” to replace reference to *allowed expenditure*

3.11.4 – The profiling factors in Appendix 1 do not seem to enact the policy for T1 projects delivering output in the first 2 years of T2 set out in the Final Determination. At FD, it was decided these projects would be funded through the RIIO T1 volume driver. However, the current drafting and algebra do not cater for this. The profiling has been specified in such a way the same output will also be funded in full through the T2 volume driver. To properly enact the policy in FD, SpC 3.11 should make it clear it will not apply to output delivered in the first 2 years of RIIO T2, and the profiling factors in Appendix 1 will need to be adjusted to prevent the same output being funded twice. It’s also worth noting enacting the policy at FD will leave a funding gap as the T1 volume driver only provides allowance to cover part of the costs incurred to deliver output in the first 2 years of T2.

3.11.5 – Definition of ALOHLR_p, ALCBLS_p, BLCBLS_p, ALCBLL_p, BLCBLL_p terms refer to both “circuit length in km” and “circuit kilometres”; propose re-wording to “means the actual length of .. in circuit kilometres...”

[Part B: T1+2 funding] – as the T1 licence does not set out the calculation of allowances for 21/22 and 22/23, we propose that a separate ‘Part B’ T1+2 funding section may need to be added, which makes this explicit and avoids a potential gap in funding. (see also comment 3.11.4)

Appendix 2 – Assume row two, column headings, should all be shifted one to the right and a new heading for column one inserted such as “Baseline value”



3.12 Demand Related Infrastructure volume driver (DRIt)

The definition of Demand Connection Capacity makes reference to Connection Entry Capacity, which is not applicable for demand connections. Also, the capacity specified in the agreement with the ESO may not be specific enough; propose reference to the ‘name plate capacity’ of the asset referred to in the agreement with the ESO as best aligned to basis of UCA calculation. Also, suggest dropping ‘infrastructure’ from the definition to avoid confusion with connection vs. infrastructure assets which are now both funded by this mechanism.

We note the algebra in this condition does not seem to enact the policy on the Annual Iteration Process correctly. We understand the totex adjustment at AIP should reflect our latest forecast of output to be delivered over the period. We believe this requires amendments to the definition of various such as, for

example, “forecast to deliver” rather than “delivered” and a baseline allowance that reflects the latest forecast. This is the same for SpC 3.11 and SpC 3.30.

3.12.4 – Erroneous reference in brackets, “(where n-2024 to 2026....)” should be removed

3.12.4 – Suggest ‘t’ notation is defined as “...Regulatory Year for which the allowance is calculated” to replace reference to *allowed expenditure*

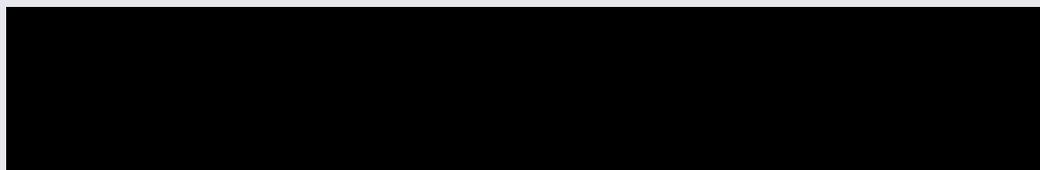
3.12.4 – In line with our comment to the SpC 3.11, the TPD process might not be needed in T2

3.12.4 – ‘p’ notation is defined as “the Regulatory Year in which the Demand Connection is delivered”; propose that this is re-worded to “is forecasted to be delivered” to align with our understanding of policy intent that the mechanism is forward looking

3.12.4 – see comment to SpC 3.11.4

3.12.5 – Definition of ALOHLR_p, ALCBLSp, BLCBLSp, ALCBLLp, BLCBLLp terms refer to both “circuit length in km” and “circuit kilometres”; propose re-wording to “means the actual length of .. in circuit kilometres...”

[Part B: T1+2 funding] – as the T1 licence does not set out the calculation of allowances for 21/22 and 22/23, we propose that a separate ‘Part B’ T1+2 funding section may need to be added, which makes this explicit and avoids a potential gap in funding. (see also comment 3.12.4)



3.13 Large Onshore Transmission Investment Re-opener (LOTIt)

General –

- There is an argument that the Dinorwig – Pentir project (determined as LOTI in (FD NGET Annex, p.53, 3.60) might not fall within the LOTI definition, on the basis that it arguably does not readily fit, in whole or in part, into either (i) load-related or (ii) a shared-use or sole-use generator connection project. Ofgem’s policy position is clear that this project does fall within the LOTI framework. We therefore propose adding the following sub-paragraph (c) to the definition of LOTI in SpC 1.1 – “*relates to the health of existing assets on the network for which no allowance has been provided to date*”. This addition is based on the definition included in para 1.6 of the LOTI guidance consulted on in October 2020. If Ofgem does not agree to this, we request further clarification from Ofgem on its interpretation of the current definition.
- We request confirmation that Ofgem will provide a Project Assessment Direction for Hinkley-Seabank, to ensure that the relevant project-specific Cost and Output Adjusting Events are incorporated into the licence. We appreciate that Ofgem has already consulted on the position and so this should be a technical matter.
- We do not consider that it is clear to refer to the “*LOTI Guidance and Submissions Requirements Document*”, as it suggests that guidance and requirements may cover different things. We suggest simplifying to “*LOTI*

Submissions Document". If this is not accepted and Ofgem considers that a fuller description is needed, we suggest "*LOTI Application Guidance and Requirements Document*".

- See response to SpC 9.4 (Re-opener Guidance and Application Requirements Document). We do not believe the policy intent is for both the Re-opener and LOTI guidance to apply to these projects and we suggest changing that condition to prevent confusion (as well as making the position clear in the guidance itself).

3.13.2 – We propose that this paragraph is updated to more accurately reflect the condition. Currently, the introduction refers to the condition as a Re-opener only, whereas it will have a baseline project. We propose that the following is added as a new sub-paragraph (a), with other numbering being updated – "*specify any opening LOTI Outputs, delivery dates and allowances*".

3.13.2(a) – We propose that "*transmission network*" (which is not defined and is not used elsewhere in the licence) should be replaced with "*Transmission System*", which is defined. This change should also be made in the definition of "*LOTI*" in SpC 1.1.

3.13.3 – Delete "*under*" as this is a typo.

3.13.4 –

- The definition of "*LOTA_t*" does not work because the algebraic term *LOTA_t* pertains to a single Regulatory Year *t*, whereas the "*sum of allowances in Appendix 1*" is a summation of values over five Regulatory Years *t*=1 to *t*=5. We propose changing to "*means the sum of allowances for Regulatory Year *t* in the first row of Appendix 1*".
- The definition of "*LOTO_t*" is currently unclear. We propose changing to "*means the sum of allowances for Regulatory Year *t* in subsequent rows of Appendix 1, following any amendments made to allowances in accordance with Part H*".

3.13.7 – We do not consider that the absolute licence obligation to deliver LOTI Outputs reflects Ofgem's stated intent set out in the Final Determination, which refers to the LPD mechanism being used for LOTI projects on a case by case basis, but makes no reference to a licence obligation so far as we are aware. For the reasons set out in our response to the informal licence drafting consultation, we consider the inclusion of this obligation to be unnecessary and disproportionate.

3.13.8 – For clarity, we propose changing to "*submitting an Initial Needs Case under Part E, approval of...*".

3.13.9 – The opening words are confusing because they use a different formulation of words than used elsewhere. We propose changing to "*If the Authority gives approval of eligibility to apply in relation to the project, or the Authority has relieved the licensee of this requirement, the licensee may...*".

3.13.10(a) – We suggest it would be beneficial to stipulate a submission "nine" months before statutory consultation rather than "twelve" to capture the time benefits of the FD policy position (FD ET Annex, p.72, 4.31) that conclusions will be published 6 – 9 months after submissions are received.

3.13.12 – Our understanding of Ofgem's policy intent is that this provision is a limitation on when the licensee may apply and not an obligation to apply. We therefore propose changing to “*approval may only be sought after...*”.

3.13.13(c) - Our understanding is that SpC 3.13.13(c) and (d) should apply only to requests for changes to allowances. COAE is also intended to allow adjustment of changes to outputs other than their costs (e.g. scope changes, amendment to delivery dates). As drafted Part G only allows such changes if they result in increases/decreases in spend greater than the materiality threshold. It is possible that requested changes to outputs or delivery date would be cost neutral or would cost less than the relevant threshold (and may therefore be in consumers' interests). We cannot see what rationale there could be for such COAE applications being prohibited as under the current drafting and no rationale has been provided.

3.13.15 – Both cross references are incorrect and should be to SpC 3.13.13, rather than 3.13.11.

3.13.15(a) – Elsewhere in the special conditions, Ofgem has accepted for similar provisions that it is appropriate to refer to the licensee providing “*any evidence available...*” (see. SpC 4.2.13 and SpC 4.3.12). We propose that the wording is changed to this here.

3.13.16 – For clarity and consistency with the heading and SpC 3.13.19, we propose that the opening wording is changed to “*Before making a Project Assessment Direction...*”.

3.13.19 – The cross-reference is incorrect and should be to SpC 3.13.13.

3.13.21 - Our understanding is that this should reference SpC 3.13.13, rather than SpC 3.13.12.

3.13.25 – For clarity and consistency, we propose that the wording here should mirror SpC 3.13.22 – “*the detailed requirements for making an application under Part B or Part G, seeking approval under Part D or Part F or making a submission under Part E*”.

3.13.26(c) - We propose deleting the words “*...the text of the...*” as it is not clear what this wording is intended to add.

Appendix 1 – Allowance numbers for Hinkley – Seabank should be updated and aligned with the PCFM. In addition, since this deliverable has now been implemented in the current licence, it seems more appropriate to cross-refer to the relevant parts of the licence as in force on 31 March 2021 than to refer to the statutory consultation.

3.14 Medium sized investment projects Re-opener (MSIPt)

3.14.3 – The second cross-reference is incorrect and should be “3.14.12”.

Part A, Heading – For consistency with SpC 3.14.1, “*Price Control Deliverable*” should be removed from the description of the term.

3.14.4 – The definition of “*MSIPA_t*” does not work because the algebraic term *MSIPA_t* pertains to a single Regulatory Year *t*, whereas the “*sum of allowances in Appendix 1*” is a summation of values over five Regulatory Years *t=1* to *t=5*.

We propose changing to “*means the sum of allowances for Regulatory Year t in Appendix 1*”.

3.14.6 – Reference to amending outputs, dates and allowances in Appendix 1 does not work as there are no projects to amend. We propose a wording change to “*The licensee may apply to the Authority for a direction adding to or amending the outputs, delivery dates...*”

3.14.6 (a) and (b) – We understand the policy position to be that generation and demand connection projects with a new overhead line component would be eligible for MSIP (FD, NGET Annex, para 4.5). We propose adding, “*...project, including the new overhead line related to that project, the forecast...*” to both (a) and (b). In addition, we propose that the following correction is made in each sub-paragraph – “*at least £11.84m...*”.

3.14.6(c)(i) – On our understanding of the technical terms used, we propose that it would be clearer to refer to “*on a new boundary, or*”.

3.14.6(c)(ii) – Our understanding of the policy intent is that projects delivering outputs in the first 2 years of T3 (i.e. T2+2; 26/27 & 27/28) would be funded via the WW volume driver and that this sub-paragraph in MSIP was to provide a route to funding projects that deliver beyond this period (i.e. 28/29 and beyond). If this was the intent we suggest wording changed to “*...expected to finish after 1 April 2028 but no later than April 2031*”.

3.14.6(d) – We propose that (i) should be changed to “*the Energy Networks Association’s report titled ‘Engineering Technical Report (ETR138)’ guidance on flooding, as amended from time to time*”. We also note that the definition of Flooding Defence Project should be changed to remove the words “*...in accordance with a defined standard*”, which are unclear and do not align with the explanation of the policy in FD ET Annex, p.81, Table 7.

3.14.6(e) – We understand that the new Black Start Standard may be published before 1 April 2021 and therefore propose removal of “*..., published on or after 1 April 2021*”.

3.14.6(f) – We propose changing the wording to read “*a system operability, constraint management, or OMW connection project or substation work which is required to accommodate embedded generation, which in each case has been requested in writing by the System Operator*”. This makes provision for OMW generation and demand connections (such as those arising out of ESO pathfinders or connection agreements) as referred to in FD ET Annex, para 4.22, but not (so far as we can see) clearly incorporated in the licence. It also covers LV substation rebuilds required as a result of increasing embedded generation near to a GSP – triggered by a DNO modification application to the ESO or the ESO Statement of Works process which we understand from discussions may fall within the Re-opener. Finally, it also makes clear that the ESO’s request in each case is required to be in writing, as in FD ET Annex, p.81, Table 7. It is not clear what is meant in the current drafting by “*formally*” and this does not align with the FD.

3.14.6(g) – We propose deleting the words “*NETS SQSS compliance...*” since it is not clear what they add to following words in the sub-paragraph.

3.14.6(h) – We propose changing “...that are required following...” to “...that are needed following...”, since the current wording could be interpreted as only relating to legal requirements. Our understanding from the issue log is that Ofgem has accepted this change.

3.14.6(i) – We propose changing “...that are required following” to “...that are needed following...”, as above.

3.14.9 – There is a typo here. “...application...” should be “...applications...”.

3.14.10(b) – We propose that the words “*setting out...*” are deleted, since they do not follow correctly from the opening wording of the paragraph and are not needed.

3.14.10(c) – We propose that the word “...*detailed*...” is deleted, since this is not sufficiently clear to form the basis of a licence obligation. The Re-opener Guidance and Application Requirements Document can set out further relevant detail that should be provided.

3.14.11(b) – To make clear of the scope of the limitation we propose adding a point in time to the criteria, “..., *but are less than £100m at the time of application; and*”. We request that the definition of Materiality Threshold is changed to include the threshold for the licensee only.

3.14.13 – The second cross-reference is incorrect and should be “3.14.12”.

3.14.15 – The cross-reference is incorrect and should be “3.14.12”.

Appendix 1 – To align with the formula, our understanding is that allowances should be provided per Regulatory Year.

3.15 Pre-Construction Funding Re-opener and Price Control Deliverable (PCFt)

3.15.4 - The definition of “ $PCFA_t$ ” is currently incorrect as the value is not the sum of the allowances, but only the sum of the allowances relating to year t . We propose changing to “*means the sum of allowances for Regulatory Year t in Appendix 1*”. We note that the numbering here is in a different size to the other numbering.

3.15.6 – We propose that, in addition to this provision, a further provision should allow for applications to change outputs and delivery dates in Appendix 1 in appropriate circumstances which do not relate to cost changes. To keep this targeted, we propose that such an application may be made “...where the change to an output or delivery date is caused by an outcome of the NOA process”.

3.15.6(b) – To remove ambiguity, we propose changing the wording at the end of this sub-paragraph to “...more than double the allowance provided for those Pre-Construction Works”.

3.15.7 – Given the defined term Initial Needs Case refers to a LOTI, the first reference to “*LOTI*” here should be deleted.

Part D, Heading – Can “outputs” be deleted?

3.15.10(a) - The following wording is ambiguous: “*where the authority considers that the licensee has completed a sufficient proportion of Pre-Construction*”

Work...". We propose that further clarity is provided on what is a sufficient proportion or the paragraph is reworded to "*where the authority considers that the licensee has incurred Pre-Construction Work expenditure in an economic and efficient manner...*".

3.15.10(c) - We propose that "*the Pre-Construction Works PCD allowance...*" should be changed to "*the allowance for the relevant Pre-Construction Works...*", to be consistent with sub-paragraphs (a) and (b).

Appendix 1 (allowances) – To align with the formula, our understanding is that allowances should be provided per Regulatory Year. Also, it is not clear how these allowances have been derived. Clarity on the approach used is requested.

3.16 Access Reform Change Re-opener (ARR_t)

To ensure that this process is proportionate, any adjustments made by this re-opener should be forward looking and therefore not apply to investments that have already been committed; the costs of which therefore cannot be reduced by any Access Reform Change. We propose the following additional paragraph below SpC 3.16.6 – "*In making a direction under paragraph 3.16.5, the Authority will not seek to attribute cost reductions to works which are the subject of an agreement with the System Operator entered into prior to the date of the Access Reform Change occurring.*".

Part A, Heading – Generally in the conditions the introduction is not Part A. We suggest removing this and renumbering the Part headings below.

3.16.2 – This should be 3.16.1, with other numbers being updated accordingly. This should also refer to "*...calculate adjustments to the term...*" consistent with other parts of the condition.

3.16.3(c) – There is a typo at "*...of to the*".

3.16.5 – It is confusing here that the language used is different to the language in SpC 3.16.7. We propose changing this to "*... directing adjustments to the values of the ARR_t term*".

3.16.7(1) – We propose "*...adjustments to the values of the ARR_t term...*".

3.20 Generation Related Infrastructure Price Control Deliverable (GR_{It})

We don't understand the rationale for this condition. We believed the policy to be that PCDs are not required for generation connections because they are covered by the volume driver in SpC 3.11. The FD does not seem to set out the policy underpinning this provision, so it's difficult for us to make any meaningful comment on this aspect. If the intention is to use this condition for 0 MW projects, an additional condition is also required for Demand (see interactive comments on SpC 3.14, 3.14.6(a) and (b) and 3.14.6(f)). Further clarity is requested.

3.20.4 – The definition of the term GR_{It} should be amended to, "means the sum of allowances set out in Appendix 1 for the year t; and"

If this condition is to be implemented as is, we do believe there's a problem with its mechanics. As we have set out in our comment to SpC 3.11, the output for two of the three projects subject to this condition is also included in the baseline

	<p>output in Appendix 2. This effectively means the same output can be subject to both mechanisms. We understand the policy is of no interaction such that output subject to PCD is not subject to volume driver and vice versa. Based on the current set up, the two funding arrangements would compete against each other - neither SpC 3.11 nor SpC 3.20 state the FD policy explicitly. We believe PCD output should be removed from baseline output in Appendix 2 and / or the interaction between SpC 3.11 and 3.20 should be made explicit.</p>
<p>3.21 Operational Transport Carbon Reduction Price Control Deliverable (OTCt)</p>	<p>Appendix 1 - we were expecting £13.311m and charging infrastructure £9.30m allowances. We anticipate that the difference in costs is due to a different price base - please confirm the price base.</p>
<p>3.22 Instrument Transformer Price Control Deliverable Term (InTt)</p>	<p>Definition of “Instrument Transformer Family” this should refer to “instrument transformer assets” not “instruments transformers assets”.</p> <p>3.22.1 - It has still not been explained how this will work in practice? The Licence condition explains how to recalculate allowances for Instrument Transformers in 2026, but the T2 “Totex Allowances” (and this Licence) will be history at that point so how is this to be applied?</p> <p>3.22.2 - the term ‘target volume’ does not reflect that many of the assets to be delivered are individually specified. The words “or decommissioning” should be added at the end of the last sentence as it is not only replacement of Instrument Transformer Family that this applies to.</p> <p>3.22.3 - The subscript ‘t’ isn’t needed if these terms are 5-year totals; ‘t’ implies it would be an annual value. However, if annual values are needed, the definition for InTAt needs changing (see 3.23.3). There is an erroneous ‘the’ in the description of InTR_t.</p> <p>3.22.4(a) - describes that the licensee is funded to deliver a ‘maximum financial value’. This is incorrect and should be deleted; we are required to deliver a list of specific assets and a further volume as explained in points (b) and (c).</p> <p>3.22.5 - InTAt is defined as being the sum of allowances, which means that it will be the same as the denominator and this final factor will always be 1. This is wrong. It is not clear why phased allowances are needed if this is to be a single figure at the end of the T2 period; again, we need to see how this number will be used in order to suggest a correct formula. Finally, this value is the revised allowance not an adjustment to the allowance so its use in 3.22.3 is wrong; we would end up with zero allowances if we achieve the target.</p> <p>3.22.6 - The value of InTAF is not stated; it would need to be in the NGET Redacted Information Document.</p> <p>3.22.7 - The term InTAn,d is not defined and d is no longer 3. It is 2 now that the PCB Instrument Transformers are not named, and the whole Licence condition needs to reflect this change.</p> <p>Part D - is missing from the condition, so there is no explanation of the process Ofgem will follow when making a direction under 3.22.3, whilst this will be after the price control period has ended we suggest it aids transparency for this to be</p>

set out in the same way that Part C sets out how the assessment of the PCD will be undertaken notwithstanding that this will be after the end of price control period.

Redacted information Document –

It is also necessary to break the family driver out into groups 'n' so that there is an applicable InTUn. The titles 'target volume' on the DGA driver and SF6 driver are inaccurate as there are specific assets to be delivered rather than a volume; these columns can be removed as they are actually the defined interventions in the table below. PCB is correctly stated as a volume, as is Family. The list of 'Defined interventions' is incomplete and does not equate to the volumes in the table. The unit costs are also wrong and need to be updated to reflect gross allowances, post-efficiencies.

In general, this is a highly complex Licence condition with overly-detailed output definitions and we would prefer to see significant simplification (including the removal of named assets and replacement with a volume) to bring it into line with other non-load related PCDs such as Bay Assets. This will reduce the administrative burden for both NGET and Ofgem, given that these are relatively low-value asset types.

3.23 Bay Assets Price Control Deliverable (BA_t)

Definition of "Bay Assets" suggest this should be amended to "...controlled switching and operations of the network..."

3.23.1 - It has still not been explained how this will work in practice? The Licence condition explains how to recalculate allowances for Bay Assets in 2026, but the T2 "Totex Allowances" (and this Licence) will be history at that point so how is this to be applied?

3.23.5 - BAR_t it is not clear why this does not follow the same drafting approach as is taken in InTR_t (3.22) where it is made clear that the term only has a value where Ofgem directs. Suggest amend the current BAR_t definition:

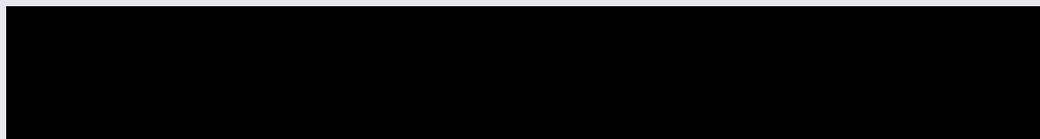
"has the value zero, unless after the Price Control Period the Authority directs that Part C applies".

3.23.5 - BAV_n is defined as the target volume of replacements in Appendix 2 and the NGET Redacted Information Document, but the definition here makes it a 'volume not delivered' (which ought to be defined as 'target - actual'). The effect of this and the equation in 3.23.3 is that a double-negative makes the outcome wrong. Reinstate formula and terms as suggested in November:

$$BAR_t = \left(\sum_{all\ n} (BAV_n - BAD_n) \times BAU_n \right) \times \frac{BAA_t}{\sum BAA_t}$$

The x BAA_t / ΣBAA_t is only required if a phased final allowance is needed for the PCFM. This is inconsistent with other similar licence conditions, for example PCt, but which one is correct depends on the operation of the PCFM in T3.

Appendix 1 – The PCD allowance incorrectly refers to InTA_t but should refer to BA_t



3.24 Protection And Control Price Control Deliverable (PCt)

3.24.1 - It has still not been explained how this will work in practice? The Licence condition explains how to recalculate allowances for P&C in 2026, but the T2 “Totex Allowances” (and this Licence) will be history at that point so how is this to be applied? Clarity is required on this issue.

3.24.3 - The subscript ‘t’ isn’t needed if these terms are 5-year totals; ‘t’ implies it would be an annual value. However, if annual values are needed, the definition for PCA_t needs changing (see 3.23.3).

3.24.3 - PCR_t it is not clear why this does not follow the same drafting approach as is taken in InTR_t (3.22) where it is made clear that the term only has a value where Ofgem directs. Suggest amend the current PCR_t definition:

“has the value zero, unless after the Price Control Period the Authority directs that Part C applies”.

3.24.5 - PCV_n should be defined as the target volume of replacements in Appendix 2 and the NGET Redacted Information Document, but the definition here makes it a ‘volume not delivered’ which isn’t a defined thing. The effect of this and the equation in 3.24.3 is that a double-negative makes the outcome wrong. Use formula and terms as suggested in 3.23 Bay Assets. The formula refers to A_n but the defined term below is Ann . We assume A_n is the correct reference per other PCDs.

Appendix 2 – Allowed Unit Costs is not a defined term so this should be amended to allowed unit cost as per other PCDs.

Redacted information document – The unit costs are wrong and need to be updated to reflect gross allowances, post-efficiencies.

3.25 Overhead Line Conductor Price Control Deliverable (OCt)

3.25.1 - It has still not been explained how this will work in practice? The Licence condition explains how to recalculate allowances for OHL Conductor in 2026, but the T2 “Totex Allowances” (and this Licence) will be history at that point so how is this to be applied? Clarity is needed on this issue.

3.25.3 - The subscript ‘t’ isn’t needed if these terms are 5-year totals; ‘t’ implies it would be an annual value. However, if annual values are needed, the definition for OCA_t needs changing (see 3.23.3).

3.25.3 - OCR_t it is not clear why this does not follow the same drafting approach as is taken in InTR_t (3.22) where it is made clear that the term only has a value where Ofgem directs. Suggest amend the current OCR_t definition:

“has the value zero, unless after the Price Control Period the Authority directs that Part C applies”.

3.25.5 - OCV_n should be defined as the target volume of replacements in Appendix 2 and the NGET Redacted Information Document, but the definition here makes it a 'volume not delivered' which isn't a defined thing. The effect of this and the equation in 3.25.3 is that a double-negative makes the outcome wrong. Use formula and terms as suggested in 3.23 Bay Assets.

Redacted information document – The unit costs are wrong and need to be updated to reflect gross allowances, post-efficiencies.

[REDACTED] Also, it is 'ACSR' not 'ASCR'. Finally, it is not clear why two unit cost groups are needed when they have the same unit cost?

3.26 Substation auxiliary systems use it or lose it allowance (SAS_t)

3.26.4 - the wording is overly vague and does not provide a process or timescale for an adjustment. We suggest that Ofgem make an annual direction through RRP and that current guidance for engineering justification is appropriate for investment.

Appendix 1 - doesn't tie back to FD's £31m in FD's, £36.58m in Licence, £34.5m in PCFM, suggest Ofgem update PCFM/Licence/FD's as appropriate to ensure alignment.

3.27 SF6 asset intervention Re-opener and Price Control Deliverable (SF6_t)

3.27 SF6 asset intervention Re-opener and Price Control Deliverable (SF6_t)

There is no definition of "Front End Engineering Assessments", such term is used in 3.27.8(d).

There is no definition of "Asset Intervention Plan", such term is used in 3.27.9(a).

Part C – The reopener specifications neglect to state the agreement made with Ben Pirie that a reopener can be requested by National Grid in 2021 to submit additional information needed to justify costs for West Ham, Barking, Sellinge, Seabank and Stocksbridge.

3.27.7 - typo in "...under paragraph 3.27.6 Bbetween 25 January...". It would also be clearer to say "...each of the Regulatory Years starting on 1 April 2023, 1 April 2024 and 1 April 2025..."

Part D – we do not agree the ability for Ofgem to trigger the reopener is in keeping with the principle of the baseline allowances and request that it is removed from the licence.

Appendix 1 -

[REDACTED]

There should be reference to the Net Zero reopener which is planned for use with respect to SF6 in 2023.

3.30 Wider works volume driver (WWVt)

As highlighted in our comment to SpC 3.11, the mechanism doesn't distinguish between projects with PCDs and those without. The condition should clarify that it only applies to projects without a PCD to avoid competing funding arrangements.

Part A - heading erroneously refers to "Wider Works Volume Driver" which is not a defined term, this should be amended to "wider works volume driver".

3.30.4 - year p is defined as the year in which the work is 'completed'. Allowance should be adjusted when a project receives the NOA proceed signal, not just when the project is completed. Suggest rewording as the project is 'completed or has received' the NOA proceed signal.

We note the algebra in this condition does not seem to enact the policy of the Annual Iteration Process correctly. We understand the totex adjustment at AIP should reflect our latest forecast of output to be delivered over the period. We believe this requires amendments to the definition of various terms in the calculation to reflect the forward-looking nature such as, for example, "forecast to deliver" rather than "delivered" and a baseline allowance that reflects the latest forecast. This is the same for SpC 3.11 and SpC 3.12.

3.30.5 - Definition of $WWVNR_{p,I}$ should refer to paragraph 3.30.7, not 3.301.7

3.30.6 - definition of term $IncBC_{p,i,x}$ incorrectly refers to "Boundary i", it should be "boundary i".

3.30.9 – this should refer to 3.30.8 rather than 3.30.6 as the direction is given under 3.30.8

[Part D: T1+2 funding] – as the 2 licence does not set out the calculation of allowances for 21/22 and 22/23, we propose that a separate 'Part D' T1+2 funding section may need to be added, which makes this explicit and avoids a potential gap in funding.

Appendix 1 - As we have highlighted in our comment to SpC 3.11 and 3.12, the profiling factors in Appendix 1 suggests output in first 2 years of T2 is fully funded through the T2 volume driver, whilst the policy at FD was for these to be funded through the T1 volume driver. The policy needs to be clarified and / or the profiling factors adjusted to ensure this condition enacts the policy set out in the FD document. Noting also the funding gap this policy will introduce (see Part D: T1+2 funding, above)

3.30.6 - The definition of route scheme x combined with the wording describing the $RLngthOHL_{p,i,x}$ term does not capture the difference between a route scheme with km (e.g. new built OHL and reconductoring) as opposed to a route scheme with no km (e.g. hotwiring). If the agreed mechanism is to be implemented correctly, it needs to account for this distinction to ensure the right UCA is applied. In the agreed approach only new build OHL and reconductoring schemes would be funded through both the CMW_{km} and C_{km} UCAs. Conversely, Hotwiring (route scheme with no km) would only be funded through the former. At the moment the term $RLngthOHL_{p,i,x}$, which is associated with the C_{km} UCA, is defined as 'the circuit length of the overhead line on which a route scheme x has completed reinforcement work in Regulatory Year p on boundary I ' while a route scheme x is defined as a scheme 'which has delivered

capability on boundary *i* in Regulatory Year *p*, through works on overhead lines or underground cables and with a NOA recommendation of “proceed”. With route schemes generally defined as ANY work on OHL or underground cables delivering boundary capability, we are going to receive the Ckm UCA even when we hotwire a circuit; this was not the original intention and it could result in hotwiring projects being overfunded. The difference between route schemes with or without km should be made explicit in the wording of this condition such that the Ckm UCA only applies to the proper subset of works.

The term WWVt does not exist in ET2 Price Control Financial Model. We assume this is an omission or that the term IWWt as defined in ET2 Price Control Financial Model should be renamed to accommodate WWVt.

3.31 Fibre Wrap Replacement Re-opener (FWRt)

General - NGET Annex p 80 refers to OpTel Fibre Wrap re-opener as Sp C 3.32, should be 3.31

Definitions – Part B Definitions p 18 refers to Fibre Wrap Replacement as- ‘means replacement of conductor that have embedded fibre-optic communications capability that provide connections between electricity transmission assets’. This can be interpreted as referring specifically to OPGW where the fibre-optic cable is within the body of the conductor. This is not the intent and a clearer definition would be - ‘means replacement of conductor which has optical-fibre wrapped around it to provide communications between electricity transmission assets’.

3.31.7 - (b) - states ‘relate to costs that do not exceed £78m’, which should be £34.6m to be consistent with NGET Annex p 107 Table A1.3

3.31.10 - we are concerned that Ofgem is introducing the ability to direct a new evaluative PCD following a successful reopener application, which represents a material change to the licence. Such significant amendments should be made via statutory modification. We suggest 3.31.10 is amended to make this clear.

If Ofgem maintains its position on directing the licence changes then we would suggest that 3.31.6(d) should be amended to include reference to the licensee also providing a view on the definition of the PCD output as well as the delivery date. We would also question whether an evaluative PCD is appropriate in this case, in particular whether the more onerous administrative burden for both licensee and Ofgem is warranted, and suggest that a mechanistic PCD would be more appropriate. We also note that the list of licence changes that will be directed is incomplete as it does not include the formula for calculating the revenue term (for example the equivalent of 3.27.4).

3.32 Civil Related Works Re-opener (CWRt)

Part B: Erroneous ‘the’ in the title
3.32.5(a) -

We have previously agreed dates of July/August 2022 for this re-opener. Baseline allowances are not sufficient to fund works until 2024.

3.32.6(d) - subparas (e) - (g) should be renumbered as subparas to 3.32.6(d). I.e. i – iii.

3.32.10 - we are concerned that Ofgem is introducing the ability to direct a new evaluative PCD following a successful reopener application, which represents a material change to the licence. Such significant amendments should be made via statutory modification. We suggest 3.32.10 is amended to make this clear.

If Ofgem maintains its position on directing the licence changes then we would suggest that 3.32.6(h) should be amended to include reference to the licensee also providing a view on the definition of the PCD output as well as the delivery date. We would also question whether an evaluative PCD is appropriate in this case, in particular whether the more onerous administrative burden for both licensee and Ofgem is warranted, and suggest that a mechanistic PCD would be more appropriate. We also note that the list of licence changes that will be directed is incomplete as it does not include the formula for calculating the revenue term (for example the equivalent of 3.27.4).

3.33 Tower Steelworks and Foundations Reopener (TSFt)

3.33.6(a) - We have previously agreed dates of July/August 2022 for this reopener. Baseline allowances are not sufficient to fund works until 2024. The licence should be updated to reflect the agreed timings.

3.33.7(b) - the sub-paras that follow in © to (f) inclusive should be sub-paras to **3.33.7(b)** - and should be renumbered as i to iv.

3.33.7(i) - the sub-paras that follow in (j) and (k) should be sub-paras to 3.33.7(i) and should be renumbered as i and ii.

3.33.7(l) - in order to follow on from the opening language in the first paragraph of 3.33.7 this should read “an explanation of whether the licensee...”. Also query whether the reference to sub-paragraph (e) is correct, should this be (i) (the specific works the licensee proposes to deliver)? Also in the last line there is a typo “... the licensees considers...”.

3.33.8 - the application is made under 3.33.4 not 3.33.7.

3.33.8 - the direction is made under 3.33.4 not 3.33.7.

3.33.11 - we are concerned that Ofgem is introducing the ability to direct a new evaluative PCD following a successful reopener application, which represents a material change to the licence. Such significant amendments should be made via statutory modification. We suggest 3.33.11 is amended to make this clear.

If Ofgem maintains its position on directing the licence changes then we would suggest that 3.33.6(l) should be amended to include reference to the licensee also providing a view on the definition of the PCD output as well as the delivery date. We would also question whether an evaluative PCD is appropriate in this case, in particular whether the more onerous administrative burden for both licensee and Ofgem is warranted, and suggest that a mechanistic PCD would be more appropriate. We also note that the list of licence changes that will be directed is incomplete as it does not include the formula for calculating the revenue term (for example the equivalent of 3.27.4).

3.34 Tyne Crossing Project Re-opener (TCRt)

Definition of “Tyne Crossing Project” should be amended to read “...the overhead line part of the Transmission System...”

3.34.5(a) - We have previously agreed that the dates for this re-opener should be left open, as the issue is complex and linked to customer and licence requirements that NGET must adhere to. A delay to 2024 could have cost implications for consumers.

3.34.6 - amend the end of the sentence as follows “...to the Authority and include:”.

3.34.6(a) - remove the word “include” from the start of this sub-para. Also sub-paras (b) to (d) inclusive should be sub-paras to 3.34.6(a) and should be renumbered as i to iii.

3.34.6(h) - it does not appear that the references to subparas (b) and (d) are correct. Query if these should refer to (e) and (g)?

3.34.10 - we are concerned that Ofgem is introducing the ability to direct a new evaluative PCD following a successful reopener application, which represents a material change to the licence. Such significant amendments should be made via statutory modification. We suggest 3.34.10 is amended to make this clear.

If Ofgem maintains its position on directing the licence changes then we would suggest that 3.34.6(d) should be amended to include reference to the licensee also providing a view on the definition of the PCD output as well as the delivery date. We also note that the list of licence changes that will be directed is incomplete as it does not include the formula for calculating the revenue term (for example the equivalent of 3.27.4).

3.35 Bengeworth Road GSP Project Re-opener (BRGt)

There is no definition of “Bengeworth Road GSP Project”, this term is used throughout the condition.

3.35.4 - Ofgem had previously indicated a decision would be made by the 1st May 2021 to prevent cost impacts on the LPT2 project. We would also suggest that the licence could be amended to adjust the allowances for LPT2 rather than include the addition of a further PCD.

3.35.7 - Subject to our comment above around the appropriateness of introducing an additional PCD for this project, we are concerned that Ofgem is introducing the ability to direct a new evaluative PCD following a successful reopener application, which represents a material change to the licence. Such significant amendments should be made via statutory modification. We suggest 3.35.7 is amended to make this clear.

If Ofgem maintains its position on directing the licence changes then we would suggest that the licensee should still be afforded the opportunity to provide its view on the definition of the PCD output as well as the delivery date as with other reopeners subject to a future PCD direction. We also note that the list of licence changes that will be directed is incomplete as it does not include the formula for calculating the revenue term (for example the equivalent of 3.27.4).

3.36 Opex Escalator (OEt)

3.36.3 - The value of the BCAPEX term of £3459.2m will need to be updated to reflect final baseline capex allowances arising from post Final Determinations engagement with Ofgem. The specific scope of this term should be included in the term description, noting any specific exclusions. Our understanding is that this term will reflect total direct baseline allowances for the Load, Non-Load and Non Operational capex categories, before ongoing efficiency.

3.36.3 - The value of the BCAI term of £826.4m will need to be updated to reflect final baseline CAI allowances arising from post Final Determinations engagement with Ofgem. The specific scope of this term should be included in the term description, noting any specific exclusions. Our understanding that this term will reflect the entirety of baseline CAI funding, including the opex and capex elements of all CAI categories, before ongoing efficiency.

3.36.3 - The UMTERMt term includes the LOTOt term relating to the Large Onshore Transmission Investment (LOTI) re-opener. We believe that the terms associated with the LOTI re-opener will require further definition and subcategorization. This could then be consequential to the definition of the UMTERMt term. The UMTERMt should be reviewed accordingly against any changes to the LOTI re-opener definitions.

3.36.3 - We note that the scope of the UMTERMt in the draft GT licence includes the Net Zero Re-Opener (NZt), Physical Security Re-Opener (PSUPOt), and Non-operational IT Capex Reopener (NOITt) but these are excluded in the ET equivalent. If it is intended that these re-openers are to be submitted on a gross basis (i.e. inclusive of indirect costs) this should be clearly confirmed in the definitions of the relevant re-opener mechanisms. If the intention is that these re-openers are submitted on a direct cost only basis, then they should also included within the scope of the UMTERMt within the Opex Escalator mechanism.

3.36.3 - We note that the scope of the Opex Escalator excludes the Cyber resilience operational technology Reopener, and the Cyber resilience information technology Reopener. If it is intended that these re-openers are to be submitted on a gross basis (i.e. inclusive of indirect costs) this should be clearly confirmed in the definitions of the relevant re-opener mechanisms. If the intention is that these re-openers are submitted on a direct cost only basis, then they should also included within the scope of the UMTERMt within the Opex Escalator mechanism.

Generally, where it is concluded that certain UM mechanisms are outside of the scope of the Opex Escalator, provision should be allowed within re-opener submissions for any required indirect costs, with the definitions of the re-opener mechanisms positively confirming this.

Further comment on the implementation of the OEt term is included in our response on the Price Control Financial Model (PCFM)

NGET Chapter 4 Output Delivery Incentives

Condition	Comment
4.1 Total output delivery incentive performance	<p>4.1.1 - For consistency with other conditions, we propose "...calculate <u>the term</u> ODI...". This sub-paragraph should also refer to "Calculated <u>Revenue</u>" (singular).</p> <p>Part A, Heading – For consistency with other headings, this heading should be "<u>Formula for calculating the output delivery incentives term (ODI_t)</u>".</p> <p>4.1.2 – There is a missing bracket following the quoted heading of SpC 4.7.</p>
4.2 Energy not supplied output delivery incentive (ENSI _t)	<p>4.2.2 – Incentivised Loss of Supply Events is defined in SpC 1.1 with reference to the definitions of "CUSC" and "Grid Code". The definitions (either directly or via references in Standard Condition A1) defines the term as having the meaning of that term in parts of Standard Condition C1. Standard Condition C1 does not apply to Transmission Owners (only to the ESO) so there is no definition of CUSC or Grid Code in a condition that is in effect in the TO licence. This should be corrected with the definitions of the terms added into Standard Condition A1 and cross-referenced in SpC 1.1.</p> <p>4.2.3(b) –</p> <ul style="list-style-type: none"> We note that the level of detail here is not consistent with the detail included in SpC 4.3.3(b), which covers an equivalent obligation for IIG. We propose changing to "<i>in relation to <u>the notification and treatment of ENS Exceptional Events...</u></i>". In SpC 1.1, the definition of ENS Exceptional Events refers to "...<u>Court of Competent Authority...</u>". Although this is taken from the current licence, it appears to us that it may be intended to be "...<u>court or Competent Authority...</u>". <p>Part A, Heading – For consistency with other headings, this heading should be changed as follows: "<u>Formula for calculating the energy not supplied <u>output delivery incentive term</u> (ENSI_t)</u>".</p> <p>4.2.4 – This paragraph should be amended to read "<u>The value of the term ENSI_t...</u>". Within the formula for calculating ENSI_t, there should be a space in between "<u>max[VOLL</u>".</p> <p>4.2.8 – We do not consider that it is appropriate to require the TOs to jointly propose revisions to the ENS Incentive Methodology Statement in circumstances where each TO is responsible under licence for ensuring that it has in place a Statement which Ofgem will approve. We therefore propose changing the opening wording to "<u>The licensee, in consultation with the other Transmission Licensees subject to a condition of equivalent effect to this condition, must...</u>". This also aligns with SpC 4.2.6(a).</p> <p>Part C, Heading – Propose changing to "VOLL_t".</p> <p>4.2.12 – We propose changing to "...<u>may direct that the term VOLL_t is changed...</u>" for clarity and consistency.</p>
4.3 Insulation and Interruption Gas emissions output	<p>Part A, heading – Change to "...<u>Insulation And Interruption Gas...</u>" (capitalised).</p>

delivery incentive (IIGIt)

4.3.4 – In the definition of CTE_t , change the typo “...baseline target emissions Insulation and Interruption Gas emissions...” to “...baseline target Insulation and Interruption Gas emissions...”.

4.3.5 –

- Should be “ CTE_t ” in the opening line.
- Should be “ $BASE_t$ ” in the formula and in the subsequent definition.
- In the definition of $BASE_t$, we propose that for consistency the year should be “*the Regulatory Year commencing on 1 April 2021...*”. We also note that “*end of RIIO-ET1, by the IIG Baseline Leakage Rate...*” should not include a comma.
- In the definitions of ADD_t , DSP_t and ADJ_t , there is also some ambiguity in the drafting on whether an asset needs to be on the system for all or part of a quarter to qualify for inclusion in the data for that quarter. We suggest replacing “...for which...” with either “*during any part of which*” or “...*during all of which*”.
- Use of ADJ_t in this calculation is confusing as this is used as part of the revenue calculation in SpC 2.1 and has already been assigned the meaning “*AIP adjustment term derived in accordance with Part G*”. Therefore, we propose that this value is assigned an alternative algebraic term.
- It should be clear that in all cases the reduction is only applied following completion of the intervention. We propose changing to “...*from Funded SF6 Asset Interventions on the licensee’s Transmission System following completion of the intervention, calculated...*”.
- The formula does not work if you assume that ADJ_t is defined as the forecast emissions abatement for the assets being intervened on. This could potentially result in a scenario where the base is a negative number. The formula should only use actual emissions in all cases which makes the base adjustment numbers work correctly together. Therefore, the ADJ_t term should be defined as “*calculated using the latest actual leakage data from the assets containing sulphur hexafluoride that are defined for intervention*”.
- The definition of Funded SF6 Intervention is not in correct alphabetical order in SpC 1.1.

4.3.5 – We propose that the base leakage rate is defined explicitly along with the rest of the formula. We do not see the justification for cross-referring to the Final Determinations, which makes the condition harder to read.

4.3.13 – We continue to consider that this paragraph is a disproportionate proposal and Ofgem has not proposed similar licence obligations for other conditions. We request that this is removed. If retained, we note that in “...*exceed the value, of the volume of leakage...*”, the comma is included in error.

4.4 Timely Connections output delivery incentive (CONADJt)

Part A, Heading – For consistency across the condition, we propose the heading is amended to “*Formula for calculating the Timely Connections output delivery incentive term (CONADJ_t)*”.

4.4.3 –

- In the list of definitions, change to “*Untimely Offers_t*” and “*Total Offers_t*” (using subscript text for t).

- The definition of Untimely Offers_t, should be changed to “*means the total number of Untimely Offers;...*”.
- In the definition of Total Offers_t, the words “*the total number of connection offers;...*” confuse the drafting and are redundant. We propose that these are removed.

4.4.4 - For consistency with other conditions, we propose amending the wording to read “...*the term CONADJ_t...*”.

4.5 Quality of connections satisfaction survey output delivery incentive (QCSt)

General – method of obtaining score

The licence currently provides no detail on the method by which the score that is required for the incentive is obtained. This would provide clarity and help ensure consistency. We suggest adding wording that mirrors NGG’s Customer Satisfaction ODI obligation (which follows the same principles and intent as ET QoC ODI) and covers the minimum requirement of the TO, but allows flexibility as to how the survey is to be executed, which will develop substantially over Year 1 T2, for all TOs. Suggested drafting as follows:

“Part #: Quality of Connections Satisfaction Survey

The licensee must, unless the Authority otherwise consents, carry out a survey at least once in each Regulatory Year to assess customer satisfaction with its Licensed Activity.

The licensee may include such questions in the survey as it considers appropriate, but:

- The survey must include a question that asks for overall customer satisfaction to be rated on a scale of 1-10, where 1 is low and 10 is high; and

- the question must be framed as ‘Taking account of the service you have received [frame to a Connection Milestone from Appendix 2], how satisfied are you with National Grid Electricity Transmission?’.

The licensee must share the results of this survey with the Authority.”

We propose that a list is added and should become Appendix 2 as follows:

“Quality of a Connection Customer Milestones:

A. Pre-Application Engagement

B. Application Process and Offer

C. Project Development

D. Project Delivery

E. Outage Management

F. Connected Customer Reviews (to be reviewed at end of Year 1)”

(We note that some of the definition detail from these milestones (as set out in the DD) did not work in practice and the TOs have collectively agreed at a workshop on 2nd Dec 2020 to a slightly revised version that still measures satisfaction of customers at each of the required milestones, but would also make sense to the customers involved and does not run the risk of 'over surveying' the same customer, which was an acknowledged risk by all. We have communicated this separately.)

4.5.3 – The QCSt formula references QCSAT_t, which is not defined. We assume this is meant to be a reference to QCSAT_{Ut} (which works when tested). We therefore propose that the three erroneous references are rectified accordingly. Also, the QCSUPA and QCSDPA variable definitions for the QCSt formula are missing the ‘t’ suffix and we suggest the definitions of these terms are amended as follows:

QCSUPAt means the quality of connection satisfaction survey maximum upside percentage point adjustment for Regulatory Year t, and has the value specified in Appendix 1; and”

QCSDPA_t means the quality of connections satisfaction survey maximum downside percentage point adjustment for Regulatory Year t, and has the value specified in Appendix 1.”

4.6 Environmental Scorecard output delivery incentive (ESIt)

4.6.1 – For consistency with other conditions, we propose changing to “*the term ODI_t*”.

4.6.2 – This sub-paragraph should read “*The effect of this incentive is to reward or penalise the licensee for its performance in seven six environmental areas compared to annual thresholds*”.

Part A, Heading – For consistency with elsewhere, this heading should be changed to “*Formula for calculating the environmental scorecard output delivery incentive term (ESIt)*”.

4.6.3 – We have the following comments on the formulae and definitions:

- EGTR1 – has nothing in the thresholds table or definitions to detail the 5 and 10 project milestones (threshold 1 and 2)
- We have corrected the algebra to prevent a circular reference error. Wherever it states EVCOM_{t-1}, it should say EVCOM_{t-1} + EVPC_t. The corrected version is as below:

```

EVt = EVPCt + EVCORt, where
EVCORt = EVt * (EVTP2t - EVTTt), if EVAt < EVTP2t;
          = EVt * (EVTP1t - EVTTt), if EVTP2t < EVAt < EVTP1t;
          = EVt * (EVTR1t - EVTTt), if EVTR1t < EVAt < EVTR2t;
          = EVt * (EVTR2t - EVTTt), if EVAt > EVTR2t;
          otherwise has the value of zero;

And
EVCORt = MIN [(EVTR2t - EVTTt) * EVt, (EVAt - EVTTt) * EVt], if (EVCOMt-1 +
EVPCt) < 0 AND EVAt > EVTTt;
          = MAX [-(EVCOMt-1 + EVPCt), (EVAt - EVTTt) * EVt], if (EVCOMt-1 +
EVPCt) > 0 AND EVAt < EVTTt;
          otherwise has a value of zero;

Where EVTTt = 1 in t=2021, otherwise 2.25, and
EVCOMt = Σ1t EVt

```

- There is an additional error in the algebra which we have identified and

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And
EVCORt = MIN [-(EVCOMt-1 + EVPCt), (EVAt - EVTTt) * EVt], if (EVCOMt-1 +
EVPCt) < 0 AND EVAt > EVTTt;
          = MAX [-(EVCOMt-1 + EVPCt), (EVAt - EVTTt) * EVt], if (EVCOMt-1 +
EVPCt) > 0 AND EVAt < EVTTt;
          otherwise has a value of zero;

Where EVTTt = 1 in t=2021, otherwise 2.25, and
EVCOMt = Σ1t EVt

```

corrected below:

- EGTR_t should read EGTR1_t
- EGTP_t should read EGTP1_t

- Σ it is not defined in the formula
- The definition of “Licensee’s Offices” in SpC 1.1 still refers to “London” as a location. As noted in the issue log, this is not one of the locations in scope for the licensee’s office energy efficiency, waste and water targets. The definition should also include only those sites applicable to ET rather than the full scope of those targeted by corporate property. In the case of ET, the definition should be adjusted to state that Licensee’s Offices “means the offices at Warwick, Eakring and Derby”.
- Please then update each of the definitions of OWAt and WUAt to add the following wording at the end “...provided that for Warwick the value of [waste/water use] will be attributed to the licensee and other parties in proportion with the capex allocation for each party residing at the site”.
- We propose an update to the definition of Environmental Value as follows: “Environmental Value means a measure of the level of biodiversity and the value of the ecosystem services from the natural capital assets associated with a particular land area”.

4.6.3 – We have the following comments on the incentive values:

- EVIt, this does not seem to be working correctly – we understand that Ofgem will revisit this in the formula.

Appendix 1, Baseline Measures – We have the following comments:

- Waste includes office and operational waste and therefore the baseline should be 4,682.08 tonnes. If Office waste was all that was being measured, then the value should be 135 tonnes – the values we used in the model was 363.734 and for NGET there is a 37% allocation factor which is equivalent to 134.58 tonnes
- Baseline Measures – “Licensee’s Office waste in tonnes” should read “Licensee’s Office waste generated in tonnes”
- Baseline measures - Licensee’s Office water use in m3 should be 13,120 m3 – the value used in the model was 41,000 and for NGET there is a 32% allocation factor which is equivalent to 13,120 M3.

4.7 SO-TO optimisation output delivery incentive

Part A, Heading – For consistency with other headings, this heading should be changed as follows: “*Formula for calculating the SO-TO optimisation output delivery incentive term (SOTO_i)*”.

4.7.2 – For the reasons explained in our comments on SpC 4.7.9(a) below, we propose that “...SO-TO Optimisation Solutions...” is changed to “...solutions...”. In addition, in the definition of STCP11.4 Enhanced Service Provision, it appears to us that “provision” should be replaced with “procedure”.

4.7.3 –

- In the opening wording, propose changing to “the term SOTO_i” for consistency with other provisions.
- 4.7.4 incorrectly appears by the formula and this should be deleted.
- It appears to us that “{” is included in the formula in error as this is inconsistent with elsewhere in the licence.

4.7.9(a) – This sub-paragraph is unclear, because the defined term SOTO Optimisation Solutions has no substantive meaning under the licence (being referred to otherwise only in the introduction). We propose that the defined term should be removed and this sub-paragraph should be changed to

“detailing the solutions which are eligible for the SO-TO output delivery incentive”.

4.7.10(c) – We propose an amendment to read “...on the proposed SO-TO Optimisation Governance Document...”. The current wording is in error, since this paragraph is not dealing with amendments.

NGET Chapter 5 Other Revenue Allowances

Condition	Comment
5.1 Total other revenue allowances (ORAt)	<p>The splitting of the sections of SpC 5.1 into Parts is inconsistent with the formatting in the remainder of the licence. In SpC 5.1 the Introduction is labelled as Part A. The reference to Part A should be removed from the Introduction with the Part A label being allocated to the subsequent section for consistency with the rest of the licence.</p> <p>5.1.2 - There are conflicting messages as to where RDF should sit in the licence. The Final Determinations core document states that this UIOLI allowance will be associated to Licence condition 5.4, this intent is not reflected in the licence with the RDF_t term being treated as a totex allowance rather than included in other revenue. We propose that Ofgem enact the policy set out in Final Determinations, which requires the RDF_t term to be moved from chapter 3 to chapter 5 with the RDF_t term being added to the formula defining ORAt. The PCFM also requires amendment to move the RDF_t term from the Totex Allowance Variable Value inputs (NGET tab, row 39) to the Other Revenue Allowance Variable Value inputs (NGET tab, row 122). Table 3.1 in PCFH will then also require aligning with the approach adopted in the PCFM by moving the RDF_t from the Variant Totex Allowances category to the Other Revenue Allowances category.</p> <p>5.1.2 - The formula for ORAt should not include the term TIRG_t and this should be removed. Also the definition of TIRG_t below the formula should be removed. Special Condition 5.7 does not apply to NGET. See our comments at Special Condition 5.7 and also paragraph 3.157 of the reasons and effects document.</p>
5.2 The RIIO-2 Network Innovation Allowance (NIAt)	<p>The licence does not provide a condition to allow for allowances to be increased once the Strategic Innovation Fund (SIF) is set up by Ofgem. Although funding is not yet agreed, the licence should make provision for this through inclusion of this term in the ORAt formula and the ORAt input section in the PCFM and Table 3.1 of the PCFH.</p>
5.3 Carry-over RIIO-1 Network Innovation Allowance (CNIAt)	<p>We note that the comments we provided in our response to the informal licence consultation have not been included in the issues log, to the extent they are still relevant we repeat them below.</p> <p>5.3.7 - BPC (Bid preparation costs) are no longer recoverable through NIA within the T1 Licence, so this term should not be part of the CNIAV calculation</p> <p>5.3.9 - refers to Ofgem amending the RIIO-1 NIA Governance Document, however there is no restriction on the changes that can be made to the document. Such changes could have implications for projects that are already underway and may in practice make it impossible for licensees to comply with the requirements of the Governance Document, as is required</p>

	<p>under 5.3.8. We would ask that the scope of any changes is limited to anything that is reasonably required to facilitate the carry-over of the RIIO-1 NIA and that further changes beyond this are not permitted.</p>
<p>5.4 Non-Technical Mitigation Projects allowance (NTMPt)</p>	<p>Part A Heading - should refer to NTMPt.</p> <p>5.4.4 - the formula for NTMPt includes the term NTPAEk which is not defined. This should refer to NTPAEt.</p> <p>5.4.4 - the definition of NTPAEt refers to a Regulatory Reporting Pack. This term is not defined or used elsewhere in the licence. We suggest amending this definition so as to read “ means the licensee’s expenditure on Non-Technical Mitigation Projects that is reported by the licensee to the Authority”.</p>
<p>5.6 Net Zero Carbon Capital Construction Price Control Deliverable (NZ3Ct)</p>	<p>The “Use It or Lose It Adjustment” definition incorrectly refers to this as “Net zero carbon Capital Construction Price Control Deliverable)” it should refer to the “Net zero carbon Capital Construction use it or lose it allowance”. We would also suggest that for clarity the definition should set out where the licensee’s stated aims are documented. We therefore suggest the definition is further amended as follows:</p> <p>(d) the licensee’s stated aims of the allowance provided by Special Condition 5.6 (Net zero carbon Capital Construction use it or lose it allowance) <u>as set out in the environmental action plan within the Business Plan in relation to that condition;</u></p> <p>5.6.3 - FD states that this will not be attached to a PCD whereas this clause suggests it is also a PCD. There is no other provision in the condition to explain any process for Ofgem assessing such PCD. This paragraph should be deleted.</p> <p>5.6.4 - refers to NZ3Ct, it should refer to NZ3C_t.</p> <p>5.6.9 - noting the comment below re the allowance being used in the final year of the Price Control Period (and not split over 2 years) there is no need for the direction to specify the Regulatory Years to which the NZ3CR_t adjustment will apply, as this will only apply in respect of Regulatory Year 25/26. The words “and the Regulatory Years to which that adjustment relates” can be deleted.</p> <p>Appendix 1 – the £2.5m allowance will be used in the final year of RIIO-2 only and not spread over the final 2 years as indicated in the Appendix 1 table. This feedback has been provided on two previous occasions. Please adjust the 24/25 to read “-“ and 25/26 to read “2.5”</p>

**5.7 Transmission
Investment for
Renewable
Generation**

This condition does not apply to NGET as set out in paragraph 3.157 of the reasons and effects document.

However, the condition has erroneously been included at Special Condition 5.7 in the NGET licence that is being consulted on. This should be removed from the NGET licence and Special Condition 5.7 should appear as “Not Used” in the NGET licence.

NGET Chapter 6 Pass-through expenditure

Condition	Comment
<p>6.1 Pass-through items (PTt)</p>	<p>6.1.3 - The definition of “Prescribed Rates” should refer to “<i>its Licensed Activity</i>”.</p> <p>6.1.3 - The SHCP_t term and associated definition should be removed from the formula used to calculate PT_t and the list updated accordingly. In electricity transmission, SHCP_t is applied to SHET only and should not be included with the NGET special conditions (see Ofgem’s <i>reasons and effects</i> document, p.47).</p> <p>6.1.4 & 6.1.5 – We have the following comments:</p> <ul style="list-style-type: none"> SpC 6.1.4 introduces a licence obligation on licensees to engage with the valuation agency and use reasonable endeavours to minimise the prescribed rates payable. <p>This is not aligned to the stated intention, which is that Ofgem should be able to adjust the amount of prescribed rates passed through “<i>without requiring a direction from the Authority</i>” (see Ofgem’s <i>reasons and effects</i> document, pp.9-10). No justification has been made for a licence obligation here.</p> <p>We propose that SpC 6.1.4 should be removed and SpC 6.1.5 should state that that Ofgem will consider making a direction “... <u>where it considers that the licensee has not used reasonable endeavours to minimise the amount of Prescribed Rates to which it is liable</u>”.</p> <ul style="list-style-type: none"> We note that the effect of the drafting of SpC 6.1.5 is that Ofgem would need to go through a full enforcement process and find the licensee in breach of licence before adjusting the value of RB_t. We do not consider this is intended or that such a process would be proportionate. In any event, we are not clear why there is no provision for consulting on a direction under SpC 6.1.5, consistent with other provisions in the licence. The definition of “<i>Relevant Valuation Agency</i>” in SpC 1.1 is missing a full stop.
<p>6.2 Energy Not Supplied Compensatory Scheme pass-through (SHCP_t)</p>	<p>In Electricity Transmission, SHCP_t is applied to SHET only and should not be included with the NGET special conditions (see Ofgem’s <i>reasons and effects</i> document, p.47).</p> <p>This condition does not apply to NGET, however the condition has erroneously been included at Special Condition 6.2 in the NGET licence that is being consulted on. This should be removed from the NGET licence and Special Condition 6.2 should appear as “Not Used” in the NGET licence.</p>

NGET Chapter 7 Legacy Adjustments

Condition	Comment
7.1 Legacy adjustments to revenue (LAR_t)	<p>7.1.1 – For clarity and consistency, we propose “...<u>contributes to the calculation of Allowed Revenue in...</u>”.</p> <p>Part A, Heading – The heading should be “<i>Formula for calculating the <u>legacy adjustments term</u> (LAR_t)</i>”.</p> <p>7.1.3 – We have a number of comments:</p> <ul style="list-style-type: none"> • The opening wording should be “<i>The value of LAR_t is derived...</i>”. • For ease of understanding, we suggest that the terms in the formula are reordered in line with the list of terms (which follow the condition numbers). • The definition of LPT_t should refer to the “<i>RiIO-ET1 pass through items close out term</i>” as in SpC 7.2.1. • The definition of LK_t should refer to the “<i>legacy correction term</i>” as in SpC 7.4.1. • It is not clear to us why some definitions include the name of the term (e.g. “<i>means the legacy k correction term</i>”) and others do not – we propose that a consistent approach is taken. • In the definition of LEDR_t, the quoted title of SpC 7.7 is missing a close bracket. • The “<i>and</i>” at the end of the definition of LSFI_t should be moved to the end of the definition of LRI_t and should be preceded by a semi-colon. In that definition “<i>Incentive</i>” should not be capitalised. • The formula should end with a full stop.
7.2 Legacy pass-through items (LPT_t)	<p>7.2.1 – For consistency with other conditions, we propose “...<u>the term LPT_t...</u> which in turn feeds into <u>Allowed Revenue in...</u>”.</p> <p>Part A, Heading – For consistency with SpC 7.2.1, “...<i>close out term...</i>” should be added.</p> <p>7.2.3 - For ease of understanding, we suggest that the terms in the formula and the definitions are reordered so that the Parts of current SpC 3B can be listed sequentially.</p> <p>7.2.4 – This sub-paragraph incorrectly refers to “...<i>LITC_t and LLF_t...</i>” and this should be corrected to “<i>LPT_t</i>”. Currently it is not clear what happens to the pass-through term from 2022/2023.</p>
7.3 Legacy MOD (LMOD_t)	<p>As also noted in our commentary on the PCFM, Footnote 51 of the Price Control Financial Handbook (PCFH) states that ‘<i>LMOD2021/22 [which] will not change in the RiIO2 PCFM after it has been set for the regulatory year 2020/21</i>’ and paragraph 8.19 in the PCFH states ‘<i>As with the RiIO-1 process, a new MOD_t (eg MOD2021/22 and MOD2022/23) will be calculated and directed at each AIP, reflecting any changes related to the RiIO-1 variable values or from the closeout process</i>’.</p> <p>Whilst we expect updates to the forecast LMOD2022/23 following the submission of RRP21, it is still not clear whether LMOD 2021/22 is fixed given there wasn’t a formal publication of the AIP in November 2020 and the</p>

	<p>MOD2021/22 (LMOD1) was not formally directed, which adds further to the confusion of the status.</p> <p>Also, paragraph 8.23 of the PCFH states ‘The value for LMOD2021/22 relating to Regulatory Year 2019/20 is derived from outturn data submitted by licensees by 31 July 2020 in accordance with the Regulatory Instructions & Guidance (RIGs). Values of LMODt will not change in any subsequent AIP.</p> <p>We welcome clarification from Ofgem on the status of the legacy MOD values.</p> <p>7.3.1 – For consistency with other conditions, we propose “...which in turn feeds into <u>Allowed Revenue</u> in...”.</p> <p>7.3.3 –</p> <ul style="list-style-type: none"> • We propose deleting the comma in the opening line, which is a typo. • The definition of MODt is ‘has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ET1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the ET2 Price Control Financial Model’. Our understanding is that there is an error here and that “Model” should be replaced with “Handbook”. In any case, we consider that the drafting should be more precise and we propose “has the value directed by the Authority (in accordance with Chapter 8 (<u>Legacy Adjustments</u>) of the ET1 Price Control Financial <u>Handbook</u>) to <u>reflect</u> revisions to the ET1 Price Control Financial Model, <u>where that direction will coincide with the Annual Iteration Process</u>”.
<p>7.4 Legacy K correction (LKt)</p>	<p>7.4.1 – For consistency with other conditions, we propose “...which in turn feeds into <u>Allowed Revenue</u> in...”.</p> <p>7.4.2 – Change to “... the Regulatory <u>Year</u> commencing on 1 April 2021” (singular).</p>
<p>7.5 Legacy TRU Term (LTRUt)</p>	<p>7.5.1 – For consistency with other conditions, we propose “...which in turn feeds into <u>Allowed Revenue</u> in...”.</p> <p>7.5.2 – This should refer to “...<u>1 April 2024</u>...”.</p> <p>7.5.3 – For clarity and consistency we propose that “is equivalent to...” is changed to “has the value of...”.</p>
<p>7.6 Close out of RIIO-ET1 Stakeholder Satisfaction Output (LSSOt)</p>	<p>General – It is not clear why there is not a similar provision in the Introduction as is included in SpC 7.7.3, noting that the condition details how the guidance may change.</p> <p>7.6.1 – For consistency with other conditions, we propose “...the <u>term</u> LSSO_t (the RIIO-ET1 stakeholder satisfaction <u>close out</u> term)...”. Replace “Calculated Revenue” with “<u>Allowed Revenue</u>” as the current reference is incorrect.</p> <p>7.6.2 – It is not clear why this paragraph does not explain the timing of the close out, consistent with other conditions. We propose adding at the end “, such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflects the licensee’s performance in relation to that output in the Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively”.</p>

Part A – We propose updating to “...*RIIO-ET1 stakeholder satisfaction output close out term*...”.

7.6.3 – This is currently inconsistent with Part B and so we propose that the sub-paragraph should begin “*Subject to Part B*...”. It is also incorrect to state that $LSSO_t$ is calculated in accordance with the current licence (which does not use that term). This should be changed to “... $LSSO_t$ is equal to the value of SSO_t calculated...”.

7.6.5 - For consistency with other conditions, we propose “...*the term SER_t* ...”.

Part C, heading - For consistency, we propose “Amendment of the Stakeholder Engagement Reward Guidance”.

7.6.7 - For consistency, we propose “...*the Authority will amend the Stakeholder Engagement Reward Guidance*...”.

7.7 Close out of the RIIO-1 adjustment in respect of the Environmental Discretionary Reward Scheme (LEDR_t)

7.7.1 – The opening line is not clear. We propose “*The purpose of this condition is to calculate the term $LEDR_t$* ...”, which is consistent with SpC 7.7.5 and other conditions.

7.7.2 – For consistency with the heading and the definitions, we propose “*close out the RIIO-ET1 adjustment in respect of the Environmental Discretionary Reward Scheme*”. It is not clear why this paragraph does not explain the timing of the close out, consistent with other conditions. We propose adding at the end “, *such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflects any positive adjustment made under the scheme in relation to the Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively*”.

Part A – SpC 7.7.4 and SpC 7.7.5 read as being contradictory. We have proposed below drafting to replace SpC 7.7.4 – SpC 7.7.6, which reflects our understanding of the policy position while providing for consistency. This includes separating the drafting into two parts, correcting errors in the years referred to in SpC 7.7.4 (which we understand should be both years) and ensuring that the T1 formula is properly referenced:

“Part A: Formula for calculating the Environmental Discretionary Reward Scheme close out term ($LEDR_t$)”

7.7.4. *Subject to Part B, for the Regulatory Years commencing on 1 April 2021 and on 1 April 2022, the value of $LEDR_t$ is equal to the value of EDR_t calculated in accordance with Part B of Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) of this licence as in force on 31 March 2021.*

7.7.5. *For Regulatory Years commencing on or after 1 April 2023, the value of $LEDR_t$ is zero.*

Part B: Direction of the Environmental Discretionary Reward Scheme adjustment ($EDRO_t$)

	<p>7.7.6. <i>The licensee may apply to the Authority for a direction adjusting the value of the <u>term EDRO_t</u> for the <u>Regulatory Years commencing on 1 April 2021 and on 1 April 2022</u> in accordance with the <u>Environmental Discretionary Reward Scheme Guidance.</u></i></p> <p>Part B – Becomes Part C following above proposed change.</p>
<p>7.8 Close out of RIIO-ET1 Incentive in Respect of Sulphur Hexafluoride Gas Emissions incentive (LSFI_t)</p>	<p>7.8.1 - For consistency with other conditions, we propose “...<u>the term LSFI_t</u>...”.</p> <p>7.8.3 - It is incorrect to state that LSFI_t is calculated in accordance with the current licence (which does not use that term). This should be changed to “...LSFI_t is <u>equal to the value of SFI_t</u> calculated...”.</p>
<p>7.9 Close out of RIIO-ET1 Reliability incentive in respect of Energy not Supplied (LRI_t)</p>	<p>7.9.1 - For consistency with other conditions, we propose “...<u>the term LRI_t</u>...”.</p> <p>7.9.4 – “<i>LR</i>” should be “<u>LRI_t</u>”.</p>
<p>7.10 Close out of RIIO-1 Network Outputs (NOCO_t)</p>	<p>General - The NOCO_t term is not a two-year lagged mechanistic item unlike other terms which make up LAR_t. Therefore, NOCO_t does not naturally fit within the LAR_t term. Instead, due to its non-mechanistic nature, this item should form part of the close out discussions and form a component part of the LREV_t term. The use of LAR_t for revenue adjustments relating to the NOCO_t close out adjustment poses a risk to the cashflows and financeability of the licensee through applying the adjustment to a single regulatory year. As raised previously through our response to the licence drafting informal consultation in September 2020 and through the Licence Drafting Working Groups, we consider that RIIO-1 close out adjustments should be spread over the same number of years in which they arose, in order to mitigate such risks. There is precedent for this in RIIO-1 whereby a legacy revenue term was included within the PCFM. We support maintaining this approach for RIIO-2. We propose that an ‘LREV’ term is reflected in the licence and incorporated into the PCFM which results in the ability to phase the total close out adjustment, including the Network Outputs Close Out term, across the years of at least the RIIO-2 price control period. This is in line with the methodology used within the RIIO-1 framework.</p> <p>7.10.1 –Replace “<i>Calculated Revenue</i>” with “<u>Allowed Revenue</u>” as the current reference is incorrect.</p> <p>7.10.4 - It is unclear that the condition does not state expressly how NOCO_t is determined. In addition, the role of the NOMS Incentive Methodology is currently unclear in the drafting. We propose changing to “<u>The Authority will direct the value of NOCO_t, having assessed the licensee’s RIIO-1 Network Outputs delivery made in accordance with the principles in Appendix 1 (as supplemented by the NOMS Incentive Methodology).</u>”.</p> <p>7.10.5 – sub-paragraph (c) states a period of no less than <u>28</u> days where representation can be made on the proposed direction but the T1 licence states no less than <u>56</u> days where representation can be made. Given that this is a T1 close out item and there is no particular urgency for the matter to be determined,</p>

	<p>we request that Ofgem reconsider whether it is appropriate to shorten the current 56-day period in this case.</p> <p>Appendix 1 – We have previously raised concerns over the clarity of “<i>Cost of under-delivery</i>”. It appears to us that “<i>Avoided costs associated with under-delivery</i>” (as used elsewhere in the table) would be more clear.</p>
<p>7.11 Close out of RIIO-ET1 Network Innovation Competition</p>	<p>7.11.1 – We propose that the defined term “<i>NIC</i>” is used, in line with the defined term in SpC 1.1.</p> <p>7.11.2 - 7.11.3 – These provisions refer to the defined term “<i>Funding Return Mechanism</i>” which in SpC 1.1 uses the defined term “<i>Disallowed Expenditure</i>”, the definition for which is omitted from the current (RIIO-T1) licence in error.</p> <p>7.11.7(e) – It is not appropriate for the Associated Document to have unlimited scope. We propose that, as with the gas transporter licence, this should refer to “<i>any other matters relating to the governance of the NIC</i>”.</p>
<p>7.12 Legacy net RAV additions (LRAVt)</p>	<p>Part A, Heading – Consistent with elsewhere, the introduction should not be Part A and the current Part B heading should be changed to Part A.</p> <p>7.9.2 – We propose that this paragraph is expanded to explain the effect of the condition, as Ofgem’s intent here is more specific than the close out of the ET1 PCFM. We propose adding “<i>...in respect of legacy net RAV additions</i>”.</p>

NGET Chapter 8 Governance

Condition	Comment
8.1 Governance of the ET2 Price Control Financial Instruments	<p>8.1.1 - Sub-paragraph (a) should refer to “the ET2 Price Control Financial Instruments”. (In addition, the definition of this term in Special Condition 1.1 should refer to “Instruments”</p> <p>8.1.12 - Paragraph (a) references to the determination of the $ADJR_t$ and AR_t terms. Ofgem has made clear that the intent is that these terms are published not determined. Therefore, the wording in paragraph (a) should be amended to reflect the intent: “(a) published on the Authority’s Website, in Microsoft Excel ® format, the version of the ET2 Price Control Financial Model that will be used to <u>publish</u> the value of the terms.....” Such an approach is also consistent with paragraph 9.32 of the reasons and effects document.</p>
8.2 Annual Iteration Process for the ET2 Price Control Financial Model	<p>The Introduction section of SpC 8.2 has been designated as Part A. This is inconsistent with the drafting format throughout the rest of the licence where the introductory paragraphs are not labelled as a particular part of that condition. We propose that the Part A labelling is removed from the Introduction of SpC 8.2. References throughout SpC 8.2 to a particular part of the that condition will also require amending to align with the revised structure.</p> <p>8.2.1 - references the determination of the terms $ADJR_t$ and AR_t. Ofgem has made clear that the intent is that these terms are published not determined and therefore, the wording should be amended as follows: “...and the Authority each year in relation to the ET2 Price Control Financial Model, in order to <u>publish</u> the value of the terms...” Such an approach is also consistent with paragraph 9.32 of the reasons and effects document.</p> <p>8.2.4 - sets out the requirement for the licence to complete, run and save the Price Control Financial Model by 31 July prior to each Regulatory Year. It is not clear why “prior to” is used as the reference point is the first Regulatory Reporting Submission and Annual Iteration Process commencing on 31 August 2021 rather than the year for which the Allowed Revenue is being calculated. We propose the wording is amended to: “Step 1 : the licensee must, by 31 August 2021 and by 31 July <u>of</u> each Regulatory Year, thereafter:”</p> <p>8.2.4 - sets out Step 1 of the Annual Iteration Process but does not specify which version of the Price Control Financial Model should be populated as per paragraph (a). Chapter 2 of the Price Control Financial Handbook (PCFH) also does not include detail on this point. Although, the PCFH clarifies that a copy of the PCFM in its latest state will be maintained on the Ofgem website (paragraph 2.21), further clarification is required as to whether Ofgem will</p>

confirm the version of the PCFM to be used. There may well be changes to the PCFM after the publication of the version used in the previous AIP as a result of changes agreed by the Price Control Financial Model Working Group.

We require clarification on this stage of the process and propose that Ofgem state within the regulatory instruments how the PCFM for use in a particular Annual Iteration Process will be communicated to licensees to remove ambiguity from this step of the process and mitigate the risk of networks using different versions of the PCFM.

8.2.4 (c) - requires the licensee to save the version of the PCFM completed under Step 1 of the AIP. It is unclear where or why this version of the PCFM should be saved. Our understanding is that the completion of the variable values table within PCFM by 31 July (31 August in 2021) corresponds to the RII0-1 equivalent of the Regulatory Reporting Pack submissions. Please can Ofgem clarify the intention in the drafting.

8.2.9 - Paragraph 2.10 of the reasons and effect document accompanying the statutory consultation states that this condition is to “indicate that the value of AR published at each AIP is the value that should be used for charging purposes to give networks and other stakeholders early visibility of the value, which will aid transparency in allowed revenue”. As currently drafted the condition makes no provision for this. We suggest an addition to paragraph 8.2.9 to reflect this intention as follows:

“The value of the terms ADJR_t and AR_t will be published by the Authority no later than 30 November prior to each Regulatory Year and the value of these terms will be used by the licensee for charge setting purposes”

8.2.10 - Paragraph 2.10 of the reasons and effect document accompanying the statutory consultation states that this condition is “to allow for the re-publication of the AIP to update the ADJR term prior to the end of the Regulatory Year in case of material changes, to enable more accurate charging by licensees”. As currently drafted the condition makes no provision for this. We suggest this intention can be captured by:

- Expanding 8.2.10 to confirm that the Authority may re-publish the value of ADJR_t and AR_t at the request of the licensee
- Clarifying in the PCFH that a request from the licensee for re-publication under this provision can only be triggered if a specified level of material change in the value of AR_t as set out in the PCFH arises.

8.2.11 - should state “Before publishing or re-publishing the value of the terms...”

8.2.14 a) - should state “...last completed Annual Iteration Process or re-publication...”

8.2.16 - references Part A of SpC 8.2. This reference requires updating to align with the proposed removal of the Part A label from the Introduction. This paragraph should therefore be amended to:

“...(a) an Annual Iteration Process for the ET2 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part B;”

NGET Chapter 9 General Obligations

Condition	Comment
9.1 Annual Environmental Report	No Comments
9.2 Network Asset Risk Metric Methodology	<p>Definition of “Long-term Monetised Risk”: this should refer to the defined term “Single-year Monetised Risk”.</p> <p>9.2.4(c) - it appears that a word is missing “... and Long-term Monetised Risk of for:” we assume that this is intended to be consistent with the drafting in the equivalent GT condition and therefore suggest that this is amended to “... and Long-term Monetised Risk of asset failure for:”.</p> <p>9.2.4(g)(iii)(iv)(v) - Ofgem have further diversified the NARM methodologies between the electricity transmission networks and the distribution networks such that it is not possible to undertake a comparative analysis between networks in the same sector, networks outside Great Britain, and Tx/Dx systems in Great Britain. We would suggest that this is reworded as a goal for future price control periods.</p> <p>9.2.7(a) - it appears the numbering has gone awry in this part of the condition. Suggest that 9.2.7(a)(l) should form a new 9.2.7(b) as follows: (b) submit to the Authority a report containing: (i) a statement explaining the proposed modification to the NARM Methodology; and (ii) an explanation of how, in the licensee’s opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives; It is not clear whether the items in 9.2.7 (c) to (i) inclusive are intended to form part of the 9.2.7(b) report or are submitted separately. We note that the drafting is different to that in the equivalent condition in the GT licence.</p>
9.3 Price Control Deliverable Reporting Requirements and Methodology Document	No Comments
9.4 Re-opener Guidance and Application Requirements Document	<p>General - We look forward to contributing to the work to develop the ‘Tiered Assessment’ principle set out in the Guidance.</p> <p>Title/General – We do not consider that it is clear to refer to the “<i>Re-opener Guidance and Application Requirements Document</i>” as it suggests that guidance and requirements may cover different things other than as set out in the condition. We suggest simplifying to “<i>Re-opener Applications Document</i>”. If this is not accepted and Ofgem considers that a fuller description is needed, we suggest “<i>Re-opener Application Guidance and Requirements Document</i>”.</p> <p>9.4.3 – Some re-openers have bespoke application requirements in separate Associated Documents (e.g. LOTI). To avoid confusion, we propose that this paragraph should be changed to “<i>The licensee must prepare any applications for Re-openers in accordance with <u>any applicable requirements and guidance</u> in the Re-opener Applications Document</i>”.</p>

	<p>9.4.6 – In order to prevent confusion (as above), we propose that a new sub-paragraph (a) is added (with the other sub-paragraphs being updated accordingly): <i>“the Re-openers to which the Re-opener Applications Document applies”</i>.</p> <p>9.4.6(d) – The current drafting is vague and therefore unclear. We propose <i>“any requirement for <u>the application to be assured</u>”</i>.</p> <p>9.4.7(a) – has a typo at <i>“...the proposed the...”</i>.</p> <p>9.4.7(c) – This drafting does not align with our understanding of the policy intent. Our understanding is that the consultation will not only be on the content of the document, but also on other aspects (such as structure). We propose replacing the words <i>“...content of the...”</i> with <i>“<u>proposed</u>”</i>.</p> <p>9.4.8(a) - has a typo at <i>“...the amended the...”</i>.</p>
<p>9.5 Digitalisation</p>	<p>We note that the comments we provided in our September consultation response have not been included in the issues logs circulated with the statutory consultation, where these are still relevant we repeat them below:</p> <p>9.5.1(d) - We note that the requirement here is for the licensee to “take account of Data Best Practice Guidance”, which is inconsistent with 9.5.13 which requires the licensee to “use its best endeavours to act in accordance with Data Best Practice Guidance”. Ofgem should clarify which standard of performance applies. We also note that there is no reference to licensee compliance with DSAP Guidance in 9.5.1(d).</p> <p>9.5.12(b) - should refer to Digitalisation Action Plan as per the defined term.</p> <p>9.5.13 - states ‘use its best endeavours to act in accordance with Data Best Practice Guidance’. Believe this to be more onerous than necessary and would prefer ‘reasonable’. Ofgem has provided inadequate justification for the inclusion of a best endeavours obligation to comply with the Data Best Practice Guidance which represents a significantly higher standard of performance than applies to other licence obligations. It is not clear how the examples provided by Ofgem in that justification, such as making Energy System Data available for academic study align with the wording in this provision which references “ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.”. Our concerns in this area are compounded by the ability for the Data Best Practice Guidance (and the obligations it contains) to be amended by direction. We would reiterate the feedback we provided through LDWG, that the obligation should be on a reasonable endeavours basis. We would also note that in the absence of the Data Best Practice Guidance being provided as part of this consultation or the earlier informal consultation we are unable to understand what obligations will be placed on the licensee under that document, or whether it will be possible to comply to the appropriate standard. A copy should be provided as soon as practicable.</p>
<p>9.6 Disapplication of Relevant Special Conditions</p>	<p>9.6.9 - Should cross refer to:</p> <ul style="list-style-type: none"> • Parts A and B in line 2; • Part E in sub-paragraph (a); and • Part F in sub-paragraph (b).

9.7 Directly Remunerated Services	<p>9.7.7 - line 2 should refer to “Licensed <u>Activity</u>”.</p> <p>9.7.10 (d) - (DRS4): line 3 should refer to “licensee’s <u>T</u>ransmission <u>S</u>ystem”.</p>
9.8 Tax Reconciliation Assurance Statement	<p>9.8.3 - We understand the preceding regulatory year that is referred to in the assurance statement refers to the regulatory year preceding the one that finished on the 31 March immediately before the 31 July deadline for the statement. For example, for the assurance statement due by 31 July 2023, the preceding regulatory year being referred to would be the year ended March 2022 statement (and not 31 March 2023). Whilst Ofgem have confirmed this is also their understanding in the issues log, as this is a license condition and there a legal obligation, this understanding should be set out in the license documentation.</p> <p>9.8.3 and 9.8.5 - The terms “Licensee” and “licensee” are used interchangeably throughout, the correct reference is to the “Licensee” as per the opening text of the assurance statement which references “the Licensee”.</p> <p>9.8.3 - It is still not unclear how the tax reconciliation is intended to apply for the assurance statement due 31 March 2022 as the preceding regulatory year will be March 2021, which falls into the RIIO-1 period. There is a concern that under current drafting for this first reporting period the licence condition arguably cannot be fulfilled. We propose that the licence condition is amended to include reference to the first date from which this reconciliation and assurance will apply by adding the following words to the end of para 9.8.1 as follows:</p> <p><u>“The first submission by the licensee under this condition will be made by no later than 31 July 2023 for the tax reconciliation and assurance statement relating to the Regulatory Year commencing on 1 April 2021.”</u></p> <p>9.8.5 - The terms “Licensee” and “licensee” are used interchangeably throughout, the correct reference is to the “Licensee” as per the opening text of the assurance statement which references “the Licensee”.</p>
9.9 Activities Restrictions	<p>The condition incorrectly contains both Scottish TO and NGET Activities Restriction Provisions.</p> <p>9.9.1 - delete from the NGET licence as applies to Scottish TOs only.</p> <p>9.9.2 - delete from the NGET licence as applies to Scottish TOs only.</p> <p>9.9.3 - delete from the NGET licence as applies to Scottish TOs only.</p> <p>9.9.4 - renumber as 9.9.1</p> <p>9.9.5 - renumber as 9.9.2 and cross refer to 9.9.3 in line 1</p> <p>9.9.6 - renumber as 9.9.3</p>

<p>9.10 Network Access Policy</p>	<p>9.10.1 - This provision now refers to “network Users” and Special Condition 1.1 seeks to define “User”.</p> <p>This is a change from the current licence condition (where there is no reference to users) and that which was consulted on in September where network user was not specifically defined.</p> <p>The proposed definition of “User” is too broad for the purposes of Special Condition 9.10 which deals with the NAP in relation to the planning, management and operation of the NETS. Any definition of User for the purposes of this condition should therefore be limited to a user of the NETS. As currently drafted the definition of user extends to generation, distribution and supply with no limitation as to use of the NETS.</p> <p>Alternatively network user should remain undefined as, if used, it is self-evident that the term refers to users of the NETS in the context of the NAP.</p>
<p>9.11 Provision of Information to the System Operator</p>	<p>9.11.1 - This provision refers to Network Charges. This term is defined in Special Condition 1.1 with reference to the provision of Transmission Network Services. Transmission Network Services is defined in Special Condition 1.1 by reference to the definition of that term in Standard Condition A1 which (in A1) then defines the term as having the meaning of that term in Standard Condition C1. Standard Condition C1 does not apply to Transmission Owners (only to the ESO) so there is no definition of Transmission Network Services in a condition that is in effect in the TO licence. This should be corrected with a definition of the term in Standard Condition A1.</p> <p>9.11.3 - this paragraph should confirm the meaning of ARt and how it is derived (as per existing Special Condition 2N.1). We suggest:</p> <p>“TNGET means an amount no more than ARt <u>as calculated in accordance with Special Condition 2.1 (Revenue restriction)</u>”.</p>
<p>9.12 Basis of Transmission Owner Charges</p>	<p>No comments</p>
<p>9.13 Allowances in respect of a Security period</p>	<p>9.13.4(b) - “Special Conditions” is not a defined term in Special Condition 1.1. We suggest this simply refers to “special conditions” as elsewhere in the licence.</p> <p>9.13.5 - Should cross refer to 9.13.6 and 9.13.8 in line 1.</p> <p>9.13.6 - Should refer to 9.13.5 in line 1.</p>
<p>9.17 Prohibited Activities and Conduct of the Transmission Business</p>	<p>9.17.4 - This provision refers to “System Operator Functions” which is defined incorrectly in Special Condition 1.1.</p> <p>The definition should not refer to “the activities of the licensee pursuant ...to Section C” but to “the activities of NGESO pursuant to...Section C”. Section C does not apply to NGET. See existing definitions of “System Operator Functions” and “System Operator”</p> <p>9.17.4 - Delete “its” after “from” in line 2.</p>

	<p>9.17.5 - sub-paragraphs (b) and (c) should be renumbered as (i) and (ii) (to (a)) and sub-paragraph (d) and (e) re-numbered as (b) and (c) accordingly</p>
<p>9.18 Business Separation requirements and compliance obligations</p>	<p>9.18.9 - This provision refers to the term “De Minimis Business” which is then defined in Special Condition 1.1. The definition in 1.1 is incorrect. The term should preferably be defined as having the meaning given to the term in Condition B6(4) or, if the proposed structure of the definition is to be retained then part (b) of the proposed definition should refer to “...in accordance with paragraph 3(d) of Condition B6”. The Authority is giving no such consent under Special Condition 9.18 as currently stated by the proposed definition.</p> <p>9.18.12 - It is not clear why the existing provisions of Special Condition 20.10 and 11 have been removed. These appeared as Special Conditions 9.17.12 and 9.17.13 in the September informal consultation and make reference to the Compliance Statement, Compliance Report and Compliance Certificate that must be maintained / submitted by the licensee. In the absence of these provisions it is unclear which documents the licensee is obliged to review and revise under 9.18.12 under the current drafting. This should be corrected and the provisions of 9.17.12 and 9.17.13 from the September informal consultation included.</p> <p>9.18.12(b) - This provision refers to “duties specified in paragraph 9.18.12” but no duties are specified in this paragraph. This should be corrected so as to refer to the “Specified Duties” (now defined in Special Condition 1.1).</p> <p>9.18.14 - Should cross refer to 9.18.15 in line 2.</p> <p>9.18.19 - This provision refers to “Single Appointed Director” which is defined incorrectly in Special Condition 1.1. The reference in the definition to “managerial board for the System Operator” should refer to “managerial board of the licensee”. NGET is not the System Operator and this needs to be corrected.</p> <p>9.18.25(d) - Should cross refer to 9.18.24</p> <p>9.18.25(f) - Should cross refer to 9.18.20</p> <p>9.18.25(g) (h) (i) (j) - should be renumbered as sub-paragraphs (i)-(iv) to (f).</p> <p>9.18.26 - See comment above at 9.18.12. As the provisions of 9.17.12 and 13 from the September informal consultation have been removed the reference at 9.18.26 to 9.18.13 is unclear / incorrect. The existing licence condition 20.22 cross refers to 20.11 but the equivalent of 20.10 and 11 have (as noted above) been removed in the statutory consultation. Is this provision contemplating approval under 9.18.15? The drafting here is unclear and needs clarification</p> <p>9.18.27(d)(e)(f) - should be renumbered as (i)(ii)(iii) and (g) as (d).</p> <p>9.18.27(g) - should be renumbered as (d). Also the same comment made above at 9.18.26 applies here in relation to the reference to 9.18.13.</p> <p>9.18.28 - should cross refer to 9.18.26 and 27 in the penultimate line.</p>