

NGGT Chapter 1 Interpretation and definitions

Condition	Comment
1.1 Interpretations and Definitions	<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, “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, “GT2 Price Control Financial Model” – We propose that part (b) of the definition is extended to include reference to the republication process.</p> <p>Table, “PCFM Guidance” – the reference to Special Condition 8.2 should be amended to Part <u>E</u> (currently Part F).</p> <p>Table, “PCFM Variable Values” – the definition references “the table of that name in the GT2 Price Control Financial Model”. There is no such naming in the PCFM, therefore the tables on the NGGT TO and NGGT SO tabs should be titled as Variable Value tables.</p> <p>Table, “Re-Opener”: In sub-paragraph (a), reference to 3.11 should be deleted as this is correctly referred to in sub-paragraph (b). Reference to 3.13 should be removed from sub-paragraph (a) and moved to sub-paragraph (b) where reference should be made to <u>“Part C of Special Condition 3.13 (Funded incremental obligated capacity Re-Opener and Price Control Deliverable)”</u></p> <p>Table, “SO Bad Debt”, the word “Owner” should be removed from the definition to read “...System Operation Charges...”.</p> <p>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 <u>“means the sum of the values under the heading “Totex Allowance” in the Input sheet of the GT2 Price Control Financial Model.”</u></p> <p>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:</p> <p>“....</p> <p style="padding-left: 40px;">by a difference between <u>the elements of</u></p> <p style="padding-left: 40px;">(a) the licensee’s Totex Allowance; and</p> <p style="padding-left: 40px;">(b) the licensee’s actual totex expenditure</p> <p style="padding-left: 40px;"><u>which are subject to application of the Totex Incentive Strength “</u></p> <p>Table, “Use It Or Lose It Adjustment”: At the end of sub-paragraph (a), delete “and “ and replace with <u>“or”</u>. The sub-paragraphs are distinct examples of the UIOLI Adjustment in the licence; they are not cumulative.</p>

**1.2
Amendments to
the SSC for the
purposes of this
licence**

1.2.2 - In the first row of the Table in 1.2.2, column 2 should refer to “Sub-paragraph (c) (i) of the definition of “supply of transportation services” as per the current licence special condition 1.C and the September informal consultation. Without this reference it is not clear what defined term is being amended.

1.2.2 - In the 4th row, the second change so SSC A5 has been omitted. This change relates to the amendment to paragraph 11 of SSC A5 as per the current licence and the September informal consultation.

NGGT Chapter 2 Revenue Restriction

Condition	Comment
2.1 Transportation Owner Revenue Restriction (AR _t)	<p>2.1.2 – The definition of the TO Recovered Revenue Term against the algebra is currently omitted in error. We propose correcting this by changing SpC 2.1.2 to “...provides for the calculation of the term RR_t (the TO Recovered Revenue term) and the term AR_t (the Allowed Revenue term)”.</p> <p>2.1.3 - We propose that:</p> <ul style="list-style-type: none"> The paragraph should be amended to include reference to the published value of the Allowed Revenue as follows: <i>“The licensee must, when setting NTS Transportation Owner Charges, use its best endeavours to ensure that TO Recovered Revenue does not exceed <u>the value of Allowed Revenue most recently published under Part B of Special Condition 8.2.</u>”</i> Without this amendment, 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. In the definition of “NTS Transportation Owner Charges” in SpC 1.1 we propose that the words “...for the purpose of recovering its Allowed Revenue” are deleted, since these make the definition less clear and are not needed. The definition of “TO Recovered Revenue” is not clear currently, since the term “TO Recovered Revenue” is not used in the body of the provision referred to. We propose changing to “...<u>has the value of RR_t derived in accordance with Part B of Special Condition 2.1...</u>”. <p>2.1.4 – We propose that in each of the definitions of TOREntCt, TORExCt and TORCOMt, the following wording should be added after “amount of revenue” - “in respect of NTS Transportation Owner Activity...”. We note that, on the statutory consultation drafting, the part of the current definitions linking back the different terms to TO activity (currently though the definition of NTS TO Revenue) is lost and this should be retained.</p> <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 re-publication 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 GT2 Price Control Financial Model) prior to the end of Regulatory Year t,</u>”</i> (This also incorporates correcting the cross-reference.) We propose that the definition of $ADJR_t$ is then included, as follows “<i>$ADJR_t$ means the adjusted revenue term and is derived in accordance with Part D;...</i>”. For consistency with Part H, we propose changing “k correction term” to “transportation owner correction and penalty terms”. <p>2.1.6 –</p> <ul style="list-style-type: none"> The definitions should refer to “...<u>the Calculated Revenue term...</u>” and “...<u>the price index term...</u>”.

- 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 “*has the value given to R_t in Part E of Special Condition 2.1...*”.
- For consistency, “*...AIP adjustment term...*” should be changed to “*transportation owner AIP adjustment term*”.

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 GT2 Price Control Financial Model.*”
- For consistency, we propose changing “*return adjustment*” to “*return adjustment term*”. The wording of SpC 2.5.5 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 2.5.5 (Return Adjustment)*”.
- 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 , 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 GT2 Price Control Financial Model) prior to the end of Regulatory Year t ; and...”

2.1.11 – We propose “...means the price index term...”.

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).
- The over/under-recovery element of K and the penalty rate element cannot be combined into a single algebraic calculation as the calculation of K is dependent on using the ‘live’ value of AR_t whereas the penalty rate adjustment should reference the published AR_t value against which charges are set and revenues recovered. The current formula references the penalty to the ‘live’ AR_t value. We therefore propose splitting the K formula into two distinct part as follows:

$$K_t = (AR_{t-1} - RR_{t-1})(1 + I_{t-1} + 1.15\%) + (AR_t^* - RR_{t-2})(PRP_{t-2} \times PRA_{t-2})$$

This algebra incorporates an additional term AR_t^* which is defined as:

“ AR_t^ means the value of AR_t most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model) prior to the end of Regulatory Year t ”*

- 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 TO 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 TOR_t as derived in accordance with Part B of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) 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 Transportation Owner Tax Review Adjustment ($TAXAt$)

1.1, Part B - includes the definition for TO Actual Corporation Tax Liability. We propose changing “...relating to the TO...” to “...relating to the licensee’s NTS Transportation Owner Activities.” We note that “TO” is not defined in the licence.

1.1, Part B – includes the definition of NTS Transportation Owner Activities (referred to above). In this definition, the final “of” should be capitalised, in line with the defined term Supply Of NTS Services.

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.

2.2.4 – For clarity, we propose that a comma is inserted before “...in accordance with Chapter 6...”.

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 “examiner” 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 TAXA_t...”.

2.3 System Operator Revenue Restriction (SOART)

2.3.1, 2.3.3, 2.3.4 – These provisions refer to NTS System Operation Charges. This term is defined in Special Condition 1.1. We propose that the words “...for the purpose of recovering its SO Allowed Revenue” are deleted, since these make the definition less clear and are not needed.

2.3.2 –

- The definition of the SO Recovered Revenue Term against the algebra is currently omitted in error. We propose correcting this by changing SpC 2.3.2 to “...provides for the calculation of the term SORR_t (the SO Recovered Revenue term) and the term SOAR_t (the SO Allowed Revenue term)”.
- In addition, the definition of “SO Recovered Revenue” is not clear currently, since the term “SO Recovered Revenue” is not used in the body of the provision referred to. We propose changing to “...has the value of SORR_t derived in accordance with Part B of Special Condition 2.1...”.

Part A, Heading – We propose adding “...when setting NTS System Operation Charges”.

2.3.3 - We propose the paragraph should be amended to include reference to the published value of the SO Allowed Revenue as follows:

“The licensee must, when setting NTS System Operation Charges, use its best endeavours to ensure that SO Recovered Revenue does not exceed the value of SOAR_t most recently published under Part B of Special Condition 8.2.”

Without this amendment, the SO Recovered Revenue may be assessed against the ‘live’ values of SO Allowed Revenue which is recalculated for each Regulatory Year of the price control when the PCFM is re-run.

2.3.4 –

- We note that the definitions of terms in the formula for SORR_t have changed from the RIIO-1 licence wording. We are aware that these definitions may well need to change in order to remedy some of issues that have arisen from the new charging regime (MOD678A implemented in October 2020), however we propose that this is reflected through a licence modification at a later date.
- For now, we propose that in each of the definitions of SOREntCt, SORExCt and RCOMt, the following wording should be added after “amount of”

revenue" - "in respect of NTS System Operation Activity...". We note that, on the statutory consultation drafting, the part of the current definitions linking back the different terms to SO activity (currently though the definition of NTS SO Revenue) is lost and this should be retained.

Part C, Heading – "...(AR_t)" should be corrected to "($SOAR_t$)"

2.3.5 –

- The definition of $SOADJR_t^*$ requires amendment to reflect SpC 8.2.10 which enables re-publication of the PCFM and so the $SOAR_t$ and $SOADJR_t^*$ terms for use in the charge setting process. In addition, the current condition omits a definition of $SOADJR_t$ in error. We propose that the definition of $SOADJR_t^*$ should be amended to
"means the value of $SOADJR_t$ most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model) prior to the end of Regulatory Year t ."
 (This also incorporates correcting the cross-reference.)
- We propose that the definition of $SOADJR_t$ is then included, as follows
"... $SOADJR_t$ means the SO adjusted revenue term and is derived in accordance with Part D;..."
- For consistency with Part G, we propose changing "*k correction term*" to "*SO correction and penalty terms*".

2.3.6 –

- The definitions should refer to "...the Calculated Revenue term and is derived..." and "...the price index term and is derived...".
- The definition of "*SO Calculated Revenue*" is not clear currently, since the term "*SO Calculated Revenue*" is not used in the body of the provision referred to. We propose changing to "*has the value given to SOR_t in Part E of Special Condition 2.1...*".

2.3.7 - The definition of $SOORA_t$ requires a minor amendment to correct the title of SpC 5.4 to "System operator other revenue allowance" (singular).

2.3.9 - The definition of $SOADJR_t^*$ requires amendment to reflect SpC 8.2.10, which enables re-publication of the PCFM and so the $SOAR_t$ and $SOADJR_t^*$ terms for use in the charge setting process. The definition of $SOADJR_t^*$ should be amended to
"means the value of $SOADJR_t$ most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model) prior to the end of Regulatory Year t ,"
 (This also incorporates using an SO specific term and also correcting the cross-reference.)

2.3.10 - The paragraph setting SOK_t equal to zero for the Regulatory Year commencing on 1 April 2021 should be removed. The K term for the Regulatory Year commencing 1 April 2021 will have a value reflecting the over or under-recovery in the Regulatory Year commencing 1 April 2020, based on the one year lag that has been introduced into the calculation of the SOK_t term and per the intent set out by Ofgem in bullet 4 of 2.3 within the *Statutory Consultation on the RIIO-2 Licence Drafting modifications - reasons and effects* document which changes the K correction term to operate on a 1- year lag rather than two year lag.

2.3.11 –

- The over/under-recovery element of SOK and the penalty rate element cannot be combined into a single algebraic calculation as the calculation of K is dependent on using the 'live' value of $SOAR_t$ whereas the penalty rate adjustment should reference the published $SOAR_t$ value against which charges are set and revenues recovered. The current formula references the penalty to the 'live' $SOAR_t$ value. We therefore propose splitting the K formula into two distinct part as follows:

$$SOK_t = \frac{(SOAR_{t-1} - SORR_{t-1})(1 + I_{t-1} + 1.15\%) + (SOAR^*_{t-2} - SORR_{t-2})}{2(SOPRP_{t-2} \times SOPRA_{t-2})}$$

This algebra incorporates an additional term $SOAR^*_t$ and the following definition should be added:

" $SOAR^*_t$ means the value of $SOAR_t$ most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model) prior to the end of Regulatory Year t ."

- In the definition of $SOAR_t$ in both places " AR_t " should refer to " $SOAR_t$ ".
- The definition of $SORR_t$ requires expanding to take into account the value of recovered revenue in the final Regulatory Year of the RIIO-T1 period which informs the SOK value in 2021/22. We propose:
"means Recovered Revenue. For Regulatory Years commencing on or after 1 April 2021 $SORR_t$ is derived in accordance with Part B. For the Regulatory Year commencing on 1 April 2020, $SORR_t$ has the value of SOR_t as defined in Part B of Special Condition 3A (Calculation of NTS System Operation Revenue (SOR_t)) of this licence as in force on 31 March 2021."
- As above, in the definition of I_t , for clarity we propose adding at the end "...in Regulatory Year t ".

2.3.13 – This paragraph should refer to "between SO Recovered Revenue and SO Allowed Revenue".

2.4 System Operator Tax Review Adjustment (SOTAX_t)

1.1 Part B –

- This includes the definition for SO Actual Corporation Tax Liability. We propose changing "...relating to the SO..." to "...relating to the licensee's NTS System Operation Activities." We note that "SO" is not defined in the licence.
- This includes the definition for SO Calculated Tax Allowance. The term should be corrected to "SOTAX_t". We propose changing "...for the SO..." to "...relating to the licensee's NTS System Operation Activities." We note that "SO" is not defined in the licence.

2.4.1 – It is incorrect to refer to the purpose of the condition being simply to "determine" the term SOTAX_t, since the term is zero unless directed. We propose changing to "...calculate any adjustment to...".

2.4.2 and 2.4.4 - should be amended to read "material and unexplained differences" to clarify that a review may only be triggered where a material difference remains unexplained.

2.4.4 – We propose that ", in accordance with Chapter 6 of the GT2 Price Control Financial Handbook" is added, consistent with the introduction and with the SpC 2.2.4.

2.4.5(c) – As noted above, 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 "*examiner*" should be changed to set out the full defined term.

2.5.6(a) – For consistency, we propose "...any adjustment to the value of the term SOTAX_t...". We also propose changing "*said report*" to "*the report*" for clarity.

2.5 Return Adjustments (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 GT2 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.

General –

- SpC 2.5 of the licence does not confirm whether the term RTNA_t takes into account both Gas Transmission Owner and Gas System Operator performance and RAV. We note that there is no drafting for a GSO RTNA term and therefore it is implied that RTNA encompasses both the GTO and GSO. This is consistent with the definition of the R_t and SOR_t terms with no SORTNA_t term being defined or included in the calculation of SOR_t. However, the PCFM is inconsistent with this approach as a SORTNA_t term is a component of SOR_t. We have therefore proposed in our comments on the PCFM that the SORTNA_t term is removed from the PCFM (SystemOperator tab, row 588).
- 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.

2.5.1 - If Ofgem will not necessarily make an adjustment, this should be changed to "...calculate any adjustment to the term RTNA_t ...". The reference to SpC 2.1 requires amendment to use the same wording as the condition title, "...in *Special Condition 2.1 (Transportation owner revenue restriction)*".

2.5.2 – The reference to "*TO Calculated Revenue*" is an error and should be changed to "*Calculated Revenue*", in line with SpC 2.1.

2.5.5 – 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.

2.5.7/2.5.8 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 2.5.6, 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 2.5.6 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.

2.5.7/2.5.8 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.

NGGT 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 PSUPRt) 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 PSUPOt to point to Parts C and D (licensee and Authority triggered reopeners) and PSUPRt 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, PSUPt 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 (PSUPRt) 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 difference 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 PSUPt is derived in accordance with the following formula:

$$PSUPt = (PSUPAt + PSUPOt) - PSUPRt$$

where:

PSUPAt 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

PSUP_Rt 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:

$$PSUP_t = PSUPX_t + PSUP_O_t$$

$$PSUPX_t = PSUPA_t - PSUPR_t$$

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};

PSUP_Ot 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

PSUP_Rt 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 PSUP_Ot 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:

$$PSUP_t = PSUPB_t + PSUPU_t$$

$$PSUPB_t = PSUPA_t - PSUPRA_t$$

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

$$PSUPU_t = PSUPO_t - PSUPRO_t$$

where:

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 NGGT** are:

- 3.2 Cyber OT (PCD & reopener)
- 3.3 Cyber IT (PCD & reopener)
- 3.4 Physical Security (PCD, reopener and close out)
- 3.10 Bacton (PCD & reopener)
- 3.11 Compressor Emissions (PCD & reopener)
- 3.12 Kings Lynn (PCD & reopener)

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 (NARMt)	<p>Appendix 1/ 3.1.3 – When reviewing the Network Asset Health Workbook (NARW) and Appendix 1, we have discovered variances in costs and volumes between the Asset Health Allowance Model issued with Final Determinations on the 7th December 2020 (file: Final Determinations – RIIO-GT2 AH Allowance Model (confidential)) and the NARW. This issue was raised to Ofgem as part of the FD error log and in further communications on the 8th and 11th January 2021. Following the identification of the error the NARW (version 1.0 issued by Ofgem on 8th December 2020 and version 1.1 on the 18th December 2020) must be corrected and reissued by Ofgem ahead of the licence modification ensuring the costs, volumes and UIDs match the Asset Health Allowance model and PCFM.</p> <p>3.1.3 – Ofgem have changed the timeline for the rerun and submission of our Baseline Network Risk Outputs (BNRO) target to be updated in the NARW following Final Determinations. The date to submit our restated BNRO target to Ofgem has moved from the 12th February to the 19th January 2021. Following the submission of our BNRO in the agreed format, we expect further clarification on when the final NARW will be issued by Ofgem.</p> <p>3.1.3 – The licence condition does not state the BNRO required to be delivered by the company in RIIO-2, it only states the values of the expenditure in Appendix 1. For transparency, Appendix 1 should contain the outputs to be delivered, these should not just be issued in the NARW.</p> <p>Part D - details the requirements of the NARM closeout report at the end of RIIO-2, but omits the mentioning of the NARM Funding Adjustment and Penalty Mechanism and any associated documents where this mechanism will be defined. We highlighted this concern as part of our response to informal licence consultation in October 2020. We would like to see a reference to potential allowance adjustments as the RIIO-1 licence did (Special Licence Condition 7E, Part B). We would also welcome further engagement on the next steps to develop the outstanding parts of the NARM Funding Adjustment and Penalty Mechanism and when the final methodology document will be published.</p>
3.2 Cyber Resilience operational technology Re-opener, use it or loose it allowance and Price Control Deliverable (CROTt)	<p>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.</p> <p>3.2.1 - Definition of Totex Allowance. SpC 3.2.1 states that CROTt 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 GT2 Price Control Financial Model.” The input sheet of that model lists both Resilience non-TIM and Resilience TIM</p>

terms contributing to Totex allowance. The inclusion of a non-TIM CROTT 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.

3.2.2 - The definition of Cyber Resilience OT PCD Table in Special Condition 1.1 in the NGGT licence needs to cross refer to Special Condition 3.2 not 3.3

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:

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

- (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 NGGT has two limbs (a) “and” (b). We propose this should be changed to read (a) “or” (b) since it is not intended that both 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 NGGT 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, use it or loose it allowance 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.

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 - Typo. An incorrect reference has been made to paragraph 3.2.6. The correct reference should be “without an application being made under paragraph 3.4.6”

3.4.14 - Typo. Insert the word “which” between “to” and “that”.

Appendix 1 NGGT. The allowances depicted in the table should be corrected to align with the PCFM. The updated values have been agreed in separate correspondence with Ofgem prior to this consultation response and are repeated in the table below:

Output	2022	2023	2024	2025	2026	Total
GTX31	1.124	1.628	-	-	-	2.752
GTX32	1.140	1.651	-	-	-	2.791
GTX35	1.245	1.803	-	-	-	3.048
GTX33	1.018	1.474	-	-	-	2.492
GTX30	1.191	1.725	-	-	-	2.916
GTX29	1.192	1.726	-	-	-	2.918
GTX34	1.437	2.081	-	-	-	3.518
GTX28	1.218	1.763	-	-	-	2.981
GTX41	0.032	1.051	1.026	-	-	2.109
RIIO2	9.598	14.901	1.026	-	-	25.525

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 Determinations, which would require the RDFt term to be moved from chapter 3 to chapter 5 with the RDFt term being added to the formula defining ORAt. The PCFM also requires amendment to move the RDFt 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 RDFt from the Variant Totex Allowances category to the Other Revenue Allowances category.

3.6 Net Zero Re-opener (NZt)

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).

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.

	General: It is not clear how Ofgem will trigger or provide notice that a reopener window is being created.
3.7 Non-operational IT Capex Re-opener (NOITt)	<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>
3.8 Coordinated Adjustment Mechanism Re-opener (CAMt)	<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 <u>established by the special conditions of this licence and that of the Partner Licensee</u>. 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).</p>
3.9 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZPt)	Final Determinations (Core Document, page 93) quotes licence number 5.5 indicating this allowance should be included in chapter 5 with revenues flowing through Other Revenue Allowances. However, the licence includes NZPt in chapter 3.

3.10 Bacton terminal site redevelopment Re-opener and Price Control Deliverable (BTRt)

We have raised a general set of comments relating to the PCD formulae which have been shared with Ofgem in advance of this consultation response. This applies to part A of this condition.

3.10.3 - Should cross refer to “paragraph 3.10.10 or 3.10.14”

3.10.4 - BTRAt term – the total allowance should read £10.5m (post adjustment allowance, consistent with Appendix 1)

3.10.6 - The definition of “Final Option Selection Report” in Special Condition 1.1 should be amended by deleting “as set out further in Associated Documents” and replacing this text with “as set out in the PCD Reporting Requirements and Methodology Document” (as per the definition of “Front End Engineering Design” in Special Condition 1.1).

3.10.7 (b) - we suggest that this is amended so as to read “by the delivery date specified in Appendix 1” to make clear that this is the first of the two dates that are set out in Appendix 1.

3.10.10 - The application window dates here are different to those in Appendix 1. They should be as the 3.10.10 dates.

3.10.10 - replace “or during such later period” with “or such other periods” (as per the approach taken in Kings Lynn PCD at 3.12.6).

3.10.12(b) - the definition of “Front End Engineering Design” in Special Condition 1.1 still refers to “fixed bid quote” rather than “tendered quote”. The issue log reflects that reference to “tendered quote” is agreed so the drafting needs to be updated accordingly.

Appendix 1

It could be made clearer that the delivery date of 28/02/2022 represents the delivery of 4.2 final option selection report (see comment at 3.10.7 above) and the Application window of 01/09/2023 - 07/09/2023 represents the delivery of the final preferred option report at 4.3. We suggest “Reopener” Application Window is added to the table title to make this clearer.

3.11 Compressor emissions Re-opener and Price Control Deliverable (CEPt)

We have raised a general set of comments relating to the PCD formulae which have been shared with Ofgem in advance of this consultation response. This applies to part A of this condition.

3.11.4 - CEPAt term – the total allowance should read £123.9m (post adjustment allowance, consistent with Appendix A)

3.11.7 (b) - we suggest that this is amended so as to read “by the delivery date specified in Appendix 1” to make clear that this is the first of the two dates that are set out in Appendix 1.

3.11.7(d) - should refer to “justification papers” (as agreed in the issues log and as per Bacton PCD at 3.10.11(e)).

3.11.17 - Should cross refer to paragraph 3.11.14.

	<p>Appendix 1: “FOSR” should be replaced with “Final Option Selection Report” in full.</p> <p>Appendix 1 date for Peterborough should be in line with St Fergus at 12/2022 aligned to match St Fergus as per Ofgem/NG bilateral discussion</p> <p>Please see Appendix 1 comment for Bacton. It could be made clearer that the delivery date represents the delivery of 4.2 final option selection report and the Application window represents the delivery of the final preferred option report at 4.3. We suggest “Reopener” Application Window is added to the table title to make this clearer.</p>
<p>3.12 King's Lynn subsidence Re-opener and Price Control Deliverable (KLSt)</p>	<p>We have raised a general set of comments relating to the PCD formulae which have been shared with Ofgem in advance of this consultation response. This applies to part A of this condition.</p> <p>3.12.4 - KLSAt term – the total allowance should read £1.16m (post adjustment allowance, consistent with Appendix A)</p> <p>3.12.4 - The definition of KLSR should cross refer to Part <u>D</u></p> <p>3.12.8 (d) - should refer to “justification papers” (as per Bacton PCD at 3.10.11(e)).</p> <p>Appendix 1 - The Delivery Date differs from the application window set out in 3.12.6. This should be 25/3/22-31/3/22</p> <p>Appendix 1 - Suggest adding “<u>Reopener</u> Application Window” heading in table to clarify.</p> <ul style="list-style-type: none"> •
<p>3.13 Funded Incremental Obligated Capacity Re-opener and Price Control Deliverable (FIOct)</p>	<p>3.13.3 - Incorrect cross references. Should refer to 3.13.7, 3.13.10, 3.13.13 and 3.13.14 (as per 3.13.15)</p> <p>3.13.4 - The FIOCR term should cross refer to Part E.</p> <p>In addition, as flagged by the generic issues across all NGGT/NGET PCD formulas, we would ask that consideration is given to the structure and definition of the formula:</p> <ul style="list-style-type: none"> • Regulatory Year t and its algebraic inconsistency to the sum of allowances in Appendix 1. In 3.13.18 adjustments to Regulatory Years will be set out in the direction, however only a total allowance appears possible in the Table provided for Appendix 1. • Unlike other PCD, there is no adjustment term specified outside of FIOCR. As well as increased clarity from defined terms of Part C, D and E (FIOC, COAE and PCD assessment), an adjustment term to account for the possibility of multiple FIOC projects being triggered within a regulatory period may benefit from a defined term in the formula.

3.13.6 - The definition of “FIOC Project Direction” in Special Condition 1.1 should refer to “...a direction by the Authority under Part C of Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable, following submission...”

3.13.8 (a) - We support the Final Determinations decision “to separate the application process into two stages – first a needs case submission and second the main funding application”. However, the need case submission is only referred to in the licence regarding its required approval as a condition of application. The modification to the process should be reflected in the licence and not just the Associated Document.

This provision should provide some clarification as to how the Authority’s approval is to be obtained. Given that the FIOC Guidance and Submissions Requirements Document is to govern the licensee’s seeking of approval under 3.13.8(a), we would request that 3.13.8(a) also confirms that the Authority’s approval will also be given in accordance with that document as follows:

“once it has obtained the Authority’s approval of the need for the proposed output to which the application relates which shall be given in accordance with the FIOC Guidance and Submissions Requirements Document”

3.13.9 - The Pre Application Notification has now been replaced by the capacity notice provision in Special Condition 9.13 Part B. Whilst we agree with the logic of this, the licence specifies an approval under 3.13.8 (a) can only be sought 12 months after this notice. We see this as an unnecessary and unjustified restriction, if there are situations where need cases could be provided and approved at an earlier stage, speeding up the process in the interest of customers and consumers. The drafting should provide for this with the addition of “or such earlier date as the Authority may direct” at the end of 3.13.9

3.13.10 - The definition of “Cost And Output Adjusting Event” in Special Condition 1.1 should cross refer to Part D of Special Condition 3.13 (not Part F).

3.13.10(c)/(d) - 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 D 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.

3.13.16 - Line 1 should refer to “A FIOC Project Direction”

3.13.16(c), 17(b) and 18(b) - these provisions refer to the term “Opex Uplift” and should be removed.

This term (which has been introduced since the September informal consultation) is not defined in Special Condition 1.1. However, without the definition it would be our understanding that this element should now be covered by SpC3.18 (Opex

	Escalator) which includes the FIOCA term within the UMTERMt calculation. The provisions of 3.13.16(c), 17(b) and 18(b) should therefore be removed.
3.14 Asset Health Re-opener (AHt)	<p>3.14.1 - There is no Appendix setting out the value of AHt. As such the purpose of the condition is not to calculate AHt but to allow its value to be adjusted for the relevant Regulatory Years. This is consistent with the construction of 3.14.4(a). The drafting should be amended accordingly.</p> <p>3.14.9 - Insert “and” at the end of sub-paragraph (b) and delete “and” at the end of sub-paragraph (c). Remove (d) in front of the words “to reflect...” as they apply to each of 3.14.9 (a),(b) and (c).</p> <p>3.14.11(b) - should cross refer to Appendix 1.</p> <p>3.14.11(c) - should cross refer to Special Condition 3.15 (Asset Health PCD)</p>
3.15 Asset Health - Non Lead Assets Price Control Deliverable (NLAt)	<p>3.15.2 - This should be updated as agreed in the issues log such that it has:</p> <ul style="list-style-type: none"> • a sub - paragraph (a) “specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; and” • and a sub - paragraph (b) “provide for an assessment of the Price Control Deliverable”. <p>This is consistent with the approach in other PCD conditions.</p> <p>3.15.3 - This should be amended to read “...the process the Authority will follow when directing any changes under paragraph 3.15.6”. This is consistent with the approach in other PCD conditions</p> <p>Aligned to bilateral engagement; the complex nature of Asset Health activities requires multiple subordinate tasks to be completed to achieve a holistic intervention which is the reportable PCD value.</p> <p>Optimal delivery of works inherently results in subordinate activities ‘straddling’ multiple regulatory periods such as RIIO-2 and RIIO-3.</p> <p>Penalisation or/and prejudicial action by the regulator to National Grid as a result of this optimisation would be counterintuitive to the core principles of the regulatory regime. Aligned to bilateral engagement, National Grid is keen to ensure treatment of PCDs which occur across regulatory periods is understood and agreed. We therefore recommend the following principles are included in the licence:</p> <ul style="list-style-type: none"> • The applicable regulatory period for Asset Health Price Control Deliverable(s) shall be identified based solely on the proportionality of spend associated to the deliverable, regardless of if a proportion of work(s) occur(s) in the RIIO-3 regulatory period. Whichever regulatory period, RIIO-2 or RIIO-3, has the greatest proportionality of spend realised, will be considered the relevant regulatory period.

	<ul style="list-style-type: none"> No penalisation or prejudicial action will occur for works not completed in the RIIO-2 period, and/or works completed over two regulatory periods, RIIO-2 and RIIO-3 specific to Asset Health non-lead asset PCDs.
3.16 Redundant assets Price Control Deliverable	<p>3.16.2 - This should be updated such that it has:</p> <ul style="list-style-type: none"> a sub paragraph (a) “specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; <u>and</u>” and a sub- paragraph (b) “<u>provide for an assessment of the Price Control Deliverable</u>”. <p>This is consistent with the approach in other PCD conditions.</p> <p>3.16.3 - This should be amended to read “...the process the Authority will follow when <u>directing any changes under paragraph 3.16.6</u>”. This is consistent with the approach in other PCD conditions.</p> <p>3.16.4 - the definition of RAAt refers to allowances in Appendix 1. No Allowances are set out in Appendix 1. This should refer to “means the sum of allowances in the <u>Redundant Assets PCD Table</u>”</p> <p>The Redundant Assets PCD Annex set the output against allowances. However the total sum of allowances does not match the final FD allowances total. Nor does it align to allowances with operational efficiencies included (as part of the allowances stated in licence condition appendices). We ask Ofgem to reissue this annex with these revised allowances for the output. We also ask Ofgem to include in the updated version of the annex a reference to Carnforth element of the PCD being assessed as part of RIIO-3.</p> <p>Appendix 1:</p> <p>In the Final Determination para 3.158 Ofgem acknowledge that equivalent delivery may be appropriate to this PCD, stating this will be set out in the PCD Reporting Requirements and Methodologies Document. However, that Associated Document drafting does not currently work for this redundant assets theme, and will respond to the AD consultation on that point. If is not possible to enact this policy on redundant assets and equivalent delivery via the AD this could be done through (a) explicitly stating within the licence condition that different redundant assets outputs can be substituted or (b) the PCD categories are grouped to a less granular level to allow substitution within categories</p>
3.17 Uncertain Costs Re-opener (QLt and PDt)	<p>3.17.5(b) - add the words “in relation to Pipeline Diversion Costs” at the end of sub-paragraph (b).</p> <p>3.17.6(d) - Should refer to “engineering justification papers”.</p>
3.18 Opex escalator (OEt)	<p>3.18.3 - We note the inclusion of the NOC escalator methodology within quoted algebra. We had anticipated that would be applied to ET only, so request Ofgem to confirm that this is intended. The relevant section of the algebra is: $0.5\% \times UMCAP \times UMTerm_t$</p>

3.18.3 - To the extent that changes are made to baseline capex allowances following post Final Determination engagement with Ofgem, the value of the BCAPEX term will need to be updated accordingly. The specific scope and basis of this term should be included in the term description, noting any specific exclusions. Our understanding is that this term will reflect pre-ongoing efficiency total direct baseline allowances for the Load, Non-Load and Non Operational capex categories.

3.18.3 - To the extent that changes are made to baseline CAI allowances following post Final Determination engagement with Ofgem, the value of the BCAI term will need to be updated accordingly. 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 pre-ongoing efficiency baseline CAI funding, including the opex and capex elements of all CAI categories.

3.18.3 - The BCAI term is not expressed in £ million and requires correction in this respect.

3.18.3 - 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.

3.18.3 - 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.

3.18.4 - In the definition of BTRO open brackets after the reference to Special Condition 3.10.

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

NGGT Chapter 4 Output Delivery Incentives

Condition	Comment
4.1 Total output delivery incentive performance (ODIt)	<p>4.1.3 - The term “ENVI” should be “<u>ESI</u>” so that it corresponds to the term in SpC 4.3</p>
4.2 Customer Satisfaction Survey output delivery incentive (CSIt)	<p>4.2.3 - The definition of Ex-ante Base Revenue (EABR) in Special Condition 1.1 should refer to the combined value of NGGT TO and NGGT SO ex ante base revenue. This is £833m as per Table 19 in the Final Determinations Finance Annex, not £731m as currently drafted in Special Condition 1.1 in the National Grid Gas plc Special Conditions. It should also be clarified in the definition that EABR is the average annual ex ante base revenue value and not the total value for RIIO-2.</p> <p>We propose the following drafting to reflect these points in the definition of Ex-ante Base revenue in Special Condition 1.1: <u>“Ex ante base revenue... has the value £833m (which is the average annual ex ante base revenue value for the NTS Transportation Owner Activity and the NTS System Operation Activity)”</u></p> <p>4.2.5 - We want to ensure the CSAT question when presented to each customer contact, is relevant and clear to them so that they can easily provide a response. Therefore, we recommend that the licence wording should reflect that the CSAT question ‘insertion’ can ‘reference’ a service milestone or deliverable provided from these areas, rather than insert the touchpoint verbatim.</p> <p>This would change the wording in paragraph 4.2.5 from: ‘Based on your experience of [service touchpoints – see Appendix 1], how satisfied are you with National Grid Gas?’.</p> <p>To: ‘Based on your experience of [<u>reference a service received from one of the service touchpoints – see Appendix 1</u>], how satisfied are you with National Grid Gas?’.</p> <p>4.2.7 - there is overlap between the service touchpoints (b) and (j). We propose amendment as follows:</p> <ul style="list-style-type: none"> (a) Planning application process. (b) The future use of our network engagements. (c) Gas construction. (d) Gas markets policy and change services. (e) Connections / disconnections and diversions services. (f) Gas National Control Centre (GNCC) services. (g) Day to day account management. (h) Energy balancing services (including allocations, measurements). (i) Maintenance services.

(j) Events, Engagements, Forums, including the future use of our network engagement.

(k) Capacity Auctions.

4.3 Environmental Scorecard output delivery incentive (ENVIt)

4.3.1 - For consistency with other conditions, we propose changing to “the term ODI_t ”

4.3.3 - The references in 4.3.3, 4.3.5 (b) and Appendix 1 should refer to “Environmental Net Gain” rather than “Biodiversity Net Gain”

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

4.3.8 -

EVCOR formula element

We have re-written some of the algebra in order to address an error we have identified that needs correction (in line with ET response).

1. Wherever the licence states EVCOM_{t-1}, it should be replaced with EVCOM_{t-1} + EVPC_t.
2. We have also corrected the formula in the first part of the EVCOR workings which should mirror the first part.

We have added an illustration below with proposed changes in red.

And where $EVCOR_t =$

- If $EVCOM_{t-1} + EVPC_t < 0$ AND $EVA_t > EVTT_t$, $\text{MIN} [-EVCOM_{t-1} + EVPC_t, (EVA_t - EVTT_t) * EVI_t]$
- If $EVCOM_{t-1} + EVPC_t > 0$ AND $EVA_t < EVTT_t$, $\text{MAX} [-EVCOM_{t-1} + EVPC_t, (EVA_t - EVTT_t) * EVI_t]$
- otherwise has a value of zero;

- Where $EVTT_t = 1$ if $t = 2021$, otherwise 2.25

$$\text{Where } EVCOM_t = \sum_{1}^t EV_t$$

EGt formula element

- $EGAt$ is referred to within the formula but is not defined, we have assumed this to be $EGAt$ for the purposes of reviewing the algebra
- Σit is not defined in the formula

Definition of “Environmental Value”

We propose an update to the definition 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.*

Definition of “Licensee’s Offices”

The definition of “Licensee’s Offices” in SpC 1.1 still refers to “London” and some other non gas transmission sites as locations out of scope for the licensee’s office energy efficiency, waste and water targets. Please adjust the definition to state that “means the offices at Warwick and Warrington”.

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*”

NGGT Chapter 5 Other revenue allowances

Condition	Comment
5.1 Transportation owner other revenue allowance (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>The paragraph numbering in SpC 5.1 requires amending to start with 5.1.1.</p> <p>5.1.3 - (renumber 5.1.2) Based on the November Licence Drafting Working Group (LDWG), Ofgem stated that the Net Zero And Re-opener Development Fund use it or lose it allowance (RDF_t, SpC 3.5) would be treated as fast money only and thus form part of Chapter 5 of the licence. The Final Determinations Core Document similarly states that this UIOLI allowance will be associated to Licence Condition 5.4 therefore confirming the understanding from the November LDWG that the RDF_t term would be included in Chapter 5 and so should be a component of the ORAt formula. This intent is not reflected in the Licence with the RDF_t term treated as a totex allowance rather than included in the Other Revenue Allowances.</p> <p>To enact the policy set out in Final Determinations and the LDWG, the RDF_t condition (SpC 3.5) requires moving from Chapter 3 to Chapter 5 with the RDF_t term being added to the formula defining ORAt. The PCFM also requires amending to move the RDF_t from the Totex Allowance Variable Value inputs (NGGT TO tab, row 29) to the Other Revenue Allowance Variable Value inputs (NGGT TO tab, row 94). 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>
5.2 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.</p> <p>5.2.4 - The formula indicates that HYIN allowance is 90% of eligible expenditure, thus indicating a 10% company compulsory contribution. Whilst this is a continuation of the RIIO-1 NIA principles, the FD document does not reflect that 10% must be provided by companies. There hasn't been any engagement with the networks on the HYIN provision and we don't currently have the innovation Associated Document to review. Please can Ofgem clarify.</p> <p>5.2.6 - Similar to comments above, the FD does not reflect the 25% limit on internal resources for HYIN expenditure, nor has this been engaged on. Please can Ofgem clarify.</p>
5.3 Carry-over 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>

5.3.7 - BPC (Bid preparation costs) are no longer recoverable through NIA within the RIIO-1 Licence, so this term should not be part of the CNIIV calculation

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 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.

5.4 System operator other revenue allowance (SOORAt)

5.4.1 - In line 2 the reference should be to “SO Calculated Revenue”

5.4.1 - Line 3 incorrectly references that the SOORA term feeds into Special Condition 2.1 . This should be changed to refer to “Special Condition 2.3 (System Operator revenue restriction)”.

5.4.2 - in the definition of SOPRPNT add “means the pre-RIIO pension true up and” in front of “has the value” as per the definition of PRPNT in Special Condition 5.1.

5.5 Entry Capacity and Exit Capacity Constraint Management (CMt)

5.5.4 - The two parts of this existing clause (see screenshot below) calculate a value for CMIR, one is pre application of the cap and collar and the other is post application of the cap and collar (i.e. there are potentially 2 values for the same CMIR term). To avoid ambiguity over the value of CMIR and to avoid adding a new term to deal with this, we believe the application of the cap and collar should be applied in a single formula as is used for other examples (e.g. in Special Condition 5.6.4), allowing the second “if.....then..” formula to be deleted
Suggested formula:

$$CMIR = \min [ANLU , \max \{ CMSF \times (CMOpTC - CMOpPM) - CMInvC , ANLL \}]$$

Part B: The Constraint Management incentive revenue (CMIR_t)

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

$$CMIR_t = CMSF \times (CMOpTC_t - CMOpPM_t) - CMInvC_t$$

where:

CMSF is the Constraint Management sharing factor which has the value of the Totex Incentive Strength;

CMOpTC_t is derived in accordance with paragraph 5.5.12;

CMOpPM_t is derived in accordance with part 5.5.5;

CMInvC_t is derived in accordance with paragraph 5.5.9; and

if **CMIR_t** ≤ **ANLL_t** then **CMIR_t** = **ANLL_t**, or if **CMIR_t** > **ANLU_t** then **CMIR_t** = **ANLU_t**

where:

ANLL_t has the value set out in Appendix 2; and

ANLU_t has the value set out in Appendix 3.

5.5.12 - The definition of CMOpDT should clarify that the term is zero unless subsequently modified under Part I

5.5.13 - In final line refer to Part H

5.5.18 - Part I relates to the target variation term CMOpDT. 5.5.18 refers to amendments to Appendix 1, which does not contain the CMOpDT term. This paragraph should be removed.

5.5.21 - Detail is required on when, where and how such a statement needs to be in place along the lines of current licence which states “The Licensee will by the date that is 30 days after the date on which the Authority issues a decision giving effect to this licence condition or such later date as the Authority may otherwise direct in writing, prepare and submit for approval by the Authority a statement of Constraint Management cost allocation rules, setting out the rules it must apply in attributing Constraint Management costs for the purposes of Part D and Part E of this condition.” [Note: existing RIIO-1 statement will need updating for RIIO-2].

5.6 System Operator external incentives, revenues and costs (SOIRct)

5.6.7 - Corrections are required to the LPM column of the table

- “<LPM<2.8” should be “**1.5**<LPM<2.8”
- “15<LPM>2.8” should be “15>LPM>2.8”

5.6.12 - As per Final Determinations, the intention is that the storage adjustor term should be greater than or equal to zero (i.e. should not be negative). As such, we believe the formula for $DFSA_t$ should have a max term rather than a min.

5.6.14a - Reporting on day ahead demand forecasting performance day will be in the RRP pack. It would therefore appear sensible to change the “activities, projects and investments to improve forecast accuracy” reporting date to align with RRP reporting.

5.6.15a - Although the D2 to D5 scheme is now reputational only, we are required to report on the performance of the D2 to D5 forecast accuracy by 1st of May. Financial incentives reporting timescales are defined through the RRP process (normally July). We would question why the timescales for performance reporting of this reputational incentives is not aligned with timescale for the financial incentives.

5.6.51(a) - line 2 should refer to 30 April 2021

5.6.57 - We believe (aligned with Ofgem’s response to items 21 and 22 of the issues log) that the intent of the gas volume methodology is to also define and detail the calculation of costs described in 5.6.60. We believe paragraph 5.6.57 should be more explicit in stating this. In addition, we consider 5.6.57 (d) is intended to mean for the purposes of calculating the costs in 5.6.57 (a) to (c).

We also believe that governance around the establishment and subsequent revisions of the Gas Volumes Methodology needs to be included in Part K (e.g. National Grid submit the revision of the methodology in June, Ofgem then approve / reject of the statement, rejection timescales, reasons for rejection etc and what happens in the event of rejection). See for instance Part D of Special Condition 9.18 as a precedent.

5.6.63 - This provision should clarify that no review will take place until its intent and scope is agreed with the licensee. We suggest “Before commencing any review the Authority will agree.....”

NGGT Chapter 6 Pass-through expenditure

Condition	Comment
6.1 Transportation Owner pass-through items (TOPTt)	<p>6.1.3 - The definition of “Prescribed Rates” in Special Condition 1.1 should refer to “<u>its</u> Licensed Activity”.</p> <p>6.1.3 In the definition of EDE, the phrase “for each Regulatory Year” should either be deleted or added to 6.3.3 in the term SOEDE for consistency.</p> <p>6.1.4 & 6.1.6 – 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 6.1.6 should state 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 6.1.6 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 RBt. 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 6.1.6, consistent with other provisions in the licence. <p>6.1.7 - In relation to Network Charge Deferral schemes, Ofgem’s intent is that NGGT should only claim interest based on its WACC and that the difference between the UNC rate charged to consumers and the licensee’s WACC is returned through the BDA term. Our understanding is that the licence drafting contradicts this intent and although NGGT understand that Ofgem will include further detail in the PCFM guidance and templates to calculate the bad debt value, the licence should also provide this clarity. We propose that Ofgem replace ‘inclusive of interest income accrued’ to <u>‘inclusive of licensee WACC for COVID-19 bad debt’</u>.</p> <p>6.1.9 - should cross refer to 6.1.8.</p> <p>6.1.9 - The paragraph makes no provision for the circumstance in which the Authority may give a direction where it agrees with the PARCA Termination Value proposed by the licensee. We propose:</p> <p><u>“If.....the Authority agrees with the PARCA Termination Value it shall direct the value for PTVt accordingly. If the Authority considers that an adjustment....etc.”</u></p>

	<p>6.1.10 - The term 'RTN_t' has already been defined (in 2.1.7) as return having the value set out in the Revenue sheet of the PCFM. Therefore, this algebraic term cannot be used and alternative terminology is required.</p>
<p>6.2 Gas conveyed to Independent Systems (IS_t)</p>	<p>6.2.2 - This paragraph refers to the defined term "Independent Systems". The definition of that term in Special Condition 1.1 is incorrect and incorrectly refers to the definition of that term in SSC A3. This needs to be corrected so as to refer to that term as currently defined in Special Condition 1A for the purposes of Special Condition 1F. This point was raised in response to the informal consultation and the issues log indicates that the suggested amendment is agreed but has not been actioned in the statutory consultation drafting.</p> <p>6.2.3 - This paragraph refers to the defined term "Bulk Price Differential". The definition of that term in Special Condition 1.1 is incorrect and incorrectly refers to "the NTS SO" rather than the "licensee" as is currently the case. This definition should refer to "the licensee". IS_t is not an SO pass through term so the reference in the definition of this term to NTS SO is incorrect.</p> <p>6.2.5 - In response to the informal consultation we suggested that this provision should clarify what the amounts in Appendix 1 are in respect of. The issues log indicates that the suggested amendment is agreed but has not been actioned in the statutory consultation drafting. We suggest after "Appendix 1" adding "(being the additional costs of serving the customers connected to those Independent Systems operated by the relevant DN Operator)"</p>
<p>6.3 System Operator pass-through items (SOPT_t)</p>	<p>6.3.3 - The term SOEDED_t allocated to the payments in relation to the Pension Scheme Established Deficit repair expenditure is referred to as SOEDE_t in the PCFH and PCFM. We suggest that the licence term is amended to SOEDE_t in the formula and associated definition in 6.3.3.</p> <p>6.3.4 - Although we have had discussions with Ofgem regarding claiming the non-COVID related RIIO-1 bad debt the licence is silent on this. Ofgem requested bad debt values from licensees in order to populate the Statutory Consultation PCFMs. Initially, the amount requested was to exclude RIIO-1 bad debts. However, before publishing the PCFM Ofgem requested and included the RIIO-1 non-COVID Bad debt values within the SOBDD_t term within the PCFM. This treatment does not align to the licence definition and therefore the licence definition should be amended to include all RIIO-1 bad debts. We propose that Ofgem replace 'inclusive of COVID-19 System Operator Bad Debt' with 'inclusive of RIIO-1 System Operator Bad Debt for year 2021-22 only'</p> <p>6.3.4 - In relation to Network Charge Deferral schemes, Ofgem's intent is that NGGT should only claim interest based on its WACC and that the difference between the UNC rate charged to consumers and the licensee's WACC is returned through the SOBDD_t term. Our understanding is that the licence drafting contradicts this intent and although NGGT understand that Ofgem will include further detail in the PCFM guidance and templates to calculate the bad debt value, the licence should also provide this clarity. We propose that Ofgem replace 'inclusive of interest income accrued' with 'inclusive of licensee WACC for COVID-19 bad debt'</p> <p>6.3.4 - Definition of SOBDD_t should refer to "SO Bad Debt"</p>

6.3.4 - The definition in Special Condition 1.1 of COVID 19 System Operator Bad Debt refers to a COVID 19 Defaulting Gas Shipper. The definition of the latter should refer to “bad debt” and not “Bad Debt” as “Bad Debt” is defined by reference to NTS TO charges only.

6.3.5 - This term refers to SORBDA_t which should be amended to SOBDA_t consistent with the terminology used throughout the rest of the condition.

NGGT Chapter 7 Legacy Adjustments

Condition	Comment
7.1 Transportation Owner legacy adjustments (LAR _t)	<p>7.1.1 – For clarity and consistency, we propose “...<i>contributes to the calculation of Allowed Revenue in...</i>”.</p> <p>7.1.3 – The opening wording should be “<i>The value of LAR_t is derived...</i>”.</p>
7.2 Transportation Owner legacy pass-through (LPT _t)	<p>7.2.1 – For clarity and consistency, we propose “...<i>calculation of the <u>term</u> LAR_t... which in turn feeds into <u>Allowed Revenue</u> in...</i>”.</p> <p>7.2.2 – For consistency with the current licence, this should refer to “...<i>close out of the RIIO-GT1 <u>allowed</u> pass-through term...</i>”.</p>
7.3 Transportation Owner legacy MOD (LMOD _t)	<p>As also noted in our commentary on the PCFM, Footnote 50 of the Price Control Financial Handbook (PCFH) states that ‘<i>L</i>MOD2021/22 [<i>which</i>] will not change in the RIIO2 PCFM after it has been set for the regulatory year 2020/21’ and paragraph 8.19 in the PCFH states ‘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’.</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 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 LMOD_t 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 “...for <u>the term</u> LMOD_t...”.</p> <p>7.3.3 - The definition of MOD_t is ‘<i>has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the GT1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the GT2 Price Control Financial Model</i>’. Our understanding is that there is an error here and that “<i>Model</i>” should be replaced with “<i>Handbook</i>”. In any case, we consider that the drafting should be more precise and we propose “<i>has the value directed by the Authority (in accordance with Chapter 8 (Legacy Adjustments) of the GT1 Price Control Financial Handbook) to reflect revisions to the GT1 Price Control Financial Model, where that direction will coincide with the Annual Iteration Process</i>”.</p>

7.4 Transportation Owner legacy K correction (LKt)	7.4.1 – For consistency with other conditions, we propose “...which in turn feeds into <u>Allowed Revenue</u> in...”.
7.5 Transportation Owner legacy TRU term (LTRU_t)	<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 –We propose “...reflects TRU adjustments relating to <u>inflation forecasts used in the Regulatory Years...</u>”.</p> <p>7.5.3 - The LTRU_t drafting references the TRU_t term as calculated as per the RIIO-1 framework and licence resulting in a term stated in 2009/10 prices. However, the legacy adjustment term (LAR_t), of which the LTRU_t term is part, is required to be calculated using values in nominal prices. The TRU_t term in the licence as in force on 31 March 2021 is calculated in a 2009/10 price base. Therefore, the LTRU_t term requires uplifting to a nominal price base. This is achieved by correcting the drafting in SpC 7.5.3. to read:</p> <p><i>“For the Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LTRU_t is derived in accordance with the following formula:</i></p> $LTRU_t = TRU_t \cdot RPIF_t$ <p><i>where</i></p> <p><i>TRU_t has the value of TRU_t as determined in accordance with Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021; and</i></p> <p><i>RPIF_t has the value of RPIF_t as determined in accordance with Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021”</i></p> <p>7.5.4 - This contradicts paragraph 7.5.3 and refers to the value being 0 for a number of years. SpC 7.5.4 requires amending to ‘<i>The value of LTRU_t for the Regulatory Years commencing on or after 1 April 2025 is zero.</i>’</p>
7.6 Close out of the RIIO-1 Network Outputs (NOCot)	<p>General - the NOCO_t term is not a 2-year lagged mechanistic item, unlike other terms which contribute to 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 proposed LREV_t term.</p> <p>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>

7.6.1 - For consistency with other conditions, we propose “...for the term LAR_t (the transportation owner legacy adjustments term)...”.

7.6.3 – In our response to the informal licence consultation in October 2020, we requested that the date in this paragraph should be pushed back, because:

- Ofgem has delayed the RIIO-1 closeout workflow for various reasons including COVID-19 and there has been no further conversation on the proposed next steps and timeframe to continue this work.
- The NOMs Incentive Methodology published by Ofgem on the 6 December 2018 clearly specified that symmetrical upper and lower materiality thresholds (deadbands) should be used when Ofgem assesses NGG’s compliance with the overall network target at the end of the price control period. We have asked Ofgem on several occasions (for example in our response to the Gas Transmission Network Output Measures Rebasing Consultation in April 2020 and in the LDWG issue logs) to clarify when and how the decision on thresholds will be made, but we are still not clear on this.

Draft SpC 7.6.3 requires the licensee to prepare a report “*consistent with the NOMS Incentive Methodology*” which sets out why it considers that it has delivered network outputs. The NOMS Incentive Methodology (at para 1.5.2) states that “*This methodology specifies that upper and lower materiality thresholds should be used when assessing compliance with the overall network target*”. It is difficult to see how licensees can properly prepare a report consistent with the NOMS Incentive Methodology where that methodology prescribes the use of deadbands and these have not been set. We request that Ofgem delays the required date of the report to a date which is ten months after the deadbands are available, to enable licensees to prepare the report.

7.6.4 – 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 “*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)*”.

Appendix 1 – We have previously raised concerns over the clarity of “*Cost of under-delivery*”. It appears to us that “*Avoided costs associated with under-delivery*” (as used elsewhere in the table) would be more clear.

7.6.5 - Part B states a period of no less than 28 days where representation can be made on the proposed direction, but the T1 licence states no less than 56 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, we request that Ofgem reconsider whether it is appropriate to shorten the current 56-day period in this case.

7.7 Close out of RIIO-1 Network Innovation Competition (NICFt).	<p>General - Part D refers to Ofgem amending the RIIO-1 NIC Governance Document. Our understanding is that, as with previous iterations of the NIC Governance Document, changes to rules will only be applied to projects prospectively.</p> <p>7.7.2 - We propose that the defined term “<i>NIC</i>” is used, in line with the defined term in SpC 1.1.</p> <p>7.7.3 – It is not correct to refer to the licence as subject to the Associated Document. We propose that “<i>subject to</i>” is replaced by “<i>supplemented by</i>”. This should also refer to “<i>Parts A and B...</i>” of the condition. The Associated Document does not supplement its governance framework.</p> <p>Part A, Heading – We propose that this refers to “<i>Funding Return Mechanism</i>”, in line with the defined term in SpC 1.1.</p> <p>7.7.5 – For consistency, we propose replacing “<i>that Regulatory Year</i>” with “<i>Regulatory Year t</i>”.</p>
7.8 Close out of the RIIO-GT1 Stakeholder Satisfaction Output (SSCOt)	<p>General – We note that this condition does not include Part C of the condition (as included in the ET licence) which provides for the Stakeholder Engagement Reward Guidance to be modified (and that term is not defined in SpC 1.1. We are not clear of the reason for the difference here.</p> <p>7.8.1 – For consistency with other conditions, we propose “...<i>the <u>term</u> SSCO_t...</i>” and “...<i>the <u>term</u> LAR_t...</i>”. We also propose changing to “...<i>the <u>transportation owner legacy adjustments term</u></i>” (lower case).</p> <p>7.8.2 – We propose correcting “<i>RIIO-T1</i>”, which is not defined, to “<i>RIIO-GT1</i>”. We also propose adding the following wording at the end of the paragraph, for consistency with other parts of the licence: “...<i>in the Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively</i>”.</p>
7.9 Legacy net RAV additions (LRAVt)	<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 GT1 PCFM. We propose adding “...<i>in respect of legacy net RAV additions</i>”.</p>
7.10 System Operator legacy adjustments (SOLARt)	<p>7.10.1 – We propose correcting “...<i>SO Calculated Revenue...</i>” to “...<i>SO Allowed Revenue...</i>”, consistent with SpC 2.3.5.</p> <p>7.10.2 – We have the following comments:</p> <ul style="list-style-type: none"> • In the opening wording, we propose changing to “<i>The value of SOLAR_t is derived...</i>”. • In both places where it appears, we propose correcting “<i>TSS_t</i>” to “<i><u>LTSS_t</u></i>”. • “<i>NTS</i>” should be removed from the heading of SpC 7.16. • We also propose that the formula and list of defined terms are updated to run sequentially with the licence condition numbers.
7.11 System Operator legacy MOD (SOLMODt)	<p>7.11.1 - We propose correcting “...<i>SO Calculated Revenue...</i>” to “...<i>SO Allowed Revenue...</i>”, consistent with SpC 2.3.5.</p> <p>The definition of SOMODt is ‘<i>has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the GT1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the GT2 Price Control Financial Model</i>’. Our understanding is that there is an error here</p>

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 (Legacy Adjustments) of the GT1 Price Control Financial Handbook) to reflect revisions to the GT1 Price Control Financial Model, where that direction will coincide with the Annual Iteration Process*”.

7.11.4 - This states that the Authority will direct revisions to $SOLMOD_t$ coinciding with the Annual Iteration Process. This statement is missing from SpC 7.3, the equivalent drafting for the $LMOD_t$ term and it appears that this provision is redundant as the wording is included in SpC 7.11.3.

We reference Ofgem to our commentary regarding SpC 7.3. It is unclear how such a statement interacts with the RIIO-1 framework and RIIO-2 drafting which maintains that once directed the MOD terms will not be updated through subsequent Annual Iteration Processes.

We welcome clarification from Ofgem on the status of the legacy MOD values.

7.12 System Operator legacy K correction ($SOLK_t$)

General - This condition states that $SOLK_t$ will have the value 0 from 1st April 2023, thus results in the inclusion of the 2020/21 two-year lagged under/over collection being included in the 2022/23 (regulatory year commencing 1st April 2022) legacy term.

This is inconsistent with the intent set out by Ofgem in bullet 4 of 2.3 within the *Statutory Consultation on the RIIO-2 Licence Drafting modifications - reasons and effects* document which changes the K correction term to operate on a 1-year lag rather than two-year lag.

The drafting in SpC 7.12.4 is also inconsistent with the treatment of legacy K (LK_t) in SpC 7.4 for the Transmission Owner.

The treatment and drafting for $SOLK_t$ should be aligned to that of LK_t in SpC 7.4. The drafting for $SOLK_t$ in SpC 2.3 Part G will need to be updated to correspond with that of SpC 2.1 Part H in order to correctly implement Ofgem’s intent to introduce a one-year lag to the over/under recovery of revenue from the final year of RIIO-1.

7.12.1 - We propose correcting “...*SO Calculated Revenue...*” to “...*SO Allowed Revenue...*”, consistent with SpC 2.3.5.

7.12.2 – In line with the above, we propose that the wording here should be changed to “...*such that revenue in the Regulatory Year commencing on 1 April 2021 reflects the correction value relating to the Regulatory Year commencing on 1 April 2019*”.

Part A, Heading – For consistency with SpC 7.12.1, we propose that “*K*” is removed.

7.12.3 – The heading of SpC 3A in the current licence should be “*Restriction of NTS System Operation Revenue*”.

7.12.4 – In line with the above, we propose replacing “2023” with “2022”.

7.13 System Operator legacy TRU term (SOLTRU_t)

7.13.1 - We propose correcting "...SO Calculated Revenue..." to "...SO Allowed Revenue...", consistent with SpC 2.3.5.

7.13.2 – For the reasons explained below, we propose changing to the following wording "...such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects SOTRU adjustments relating to Regulatory Years commencing on 1 April 2017 to 1 April 2020".

7.13.3 The SOLTRU_t drafting references the SOTRU_t term as calculated as per the RIIO-1 framework and licence resulting in a term stated in 2009/10 prices. However, the legacy adjustment term (SOLAR_t), of which the SOLTRU_t term is part, is required to be calculated using values in nominal prices. The SOTRU_t term in the licence as in force on 31 March 2021 is calculated in a 2009/10 price base. Therefore, the SOLTRU_t term requires uplifting to a nominal price base. This is achieved by correcting the drafting in paragraph 7.13.3. to read: "For the Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LTRU_t is derived in accordance with the following formula:

$$\text{SOLTRU}_t = \text{SOTRU}_t \cdot \text{RPIF}_t$$

where

SOTRU_t is derived in accordance with Part D of Special Condition 3A (Restriction of NTS System Operation Revenue) of this licence as in force on 31 March 2021; and

RPIF_t is derived in accordance with Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021".

7.13.4 qualifies the SOLTRU_t as having a value for only the first 2 years of RIIO. However, this term should be in place for 4 years, consistent with the LTRU_t term. The paragraph should be amended to read 'The value of SOLTRU_t for the Regulatory Years commencing on or after 1 April **2025** is zero.'

7.14 Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue (LCMIR_t)

7.14.1 - For consistency with other conditions, we propose "...the term LCMIR_t. We also propose correcting "...SO Calculated Revenue..." to "...SO Allowed Revenue...", consistent with SpC 2.3.5.

7.14.2 – The defined term "Entry Capacity Constraint Management" from SpC 1.1 should be set out in full here.

7.14.3 - The LCMIR_t drafting references the CMIR_t term as calculated as per the RIIO-1 framework and licence resulting in a term stated in 2009/10 prices. However, the legacy adjustment term (SOLAR_t), of which the LCMIR_t term is part, is required to be calculated using values in nominal prices. The LCMIR_t term in the licence as in force on 31 March 2021 is calculated in a 2009/10 price base. Therefore, the LCMIR_t term requires uplifting to a nominal price base. This is achieved by correcting the drafting in paragraph 7.14.3. to read: "For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LCMIR_t is derived in accordance with the following formula:

$$\text{LCMIR}_t = \text{CMIR}_t \times \text{RPIF}_t$$

where:

CMIR_t is derived in accordance with Part F of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) of this licence as in force on 31 March 2021; and

	<i><u>RPIF_t is derived in accordance with Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021"</u></i>
7.15 Close out of the RIIO-GT1 Constraint Management Cost Adjustment (LCMCA_t)	<p>7.15.1 - For consistency with other conditions, we propose "...the <u>term</u> LCMCA_t...". We also propose correcting "...SO Calculated Revenue..." to "...SO <u>Allowed</u> Revenue...", consistent with SpC 2.3.5.</p> <p>7.15.2 – The defined term "<i>Entry Capacity Constraint Management</i>" from SpC 1.1 should be set out in full here.</p> <p>7.15.3 The LCMCA_t drafting references the CMCA_t term as calculated as per the RIIO-1 framework and licence resulting in a term stated in 2009/10 prices. However, the legacy adjustment term (SOLAR_t), of which the LCMCA_t term is part, is required to be calculated using values in nominal prices. The LCMCA_t term in the licence as in force on 31 March 2021 is calculated in a 2009/10 price base. Therefore, the LCMIR_t term requires uplifting to a nominal price base. This is achieved by correcting the drafting in paragraph 7.15.3. to read: "<i>For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LCMCA_t is derived in accordance with the following formula:</i> $LCMCA_t = CMCA_t \times RPIF_t$ <i>where:</i> <i>CMCA_t is derived in accordance with with Part G of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) of this licence as in force on 31 March 2021; and</i> <i>RPIF_t is derived in accordance with Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021"</i></p>
7.16 Close out of the RIIO-GT1 Transportation Support Services adjustment (LTSS_t)	7.16.1 - For consistency with other conditions, we propose "...the <u>term</u> LTSS _t . We also propose correcting "...SO Calculated Revenue..." to "...SO Allowed Revenue...", consistent with SpC 2.3.5.
7.17 System operator legacy net RAV additions (SOLRAV_t)	7.17.2 – 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 GT1 PCFM. We propose adding "...in respect of legacy net RAV additions".

NGGT Chapter 8 Governance

Condition	Comment
8.1 Governance of the GT2 Price Control Financial Instruments	<p>8.1.1 - Sub-paragraph (a) should refer to “the GT2 Price Control Financial Instruments”.</p> <p>8.1.12 - Paragraph (a) references to the determination of the $ADJR_t$, AR_t, $SOADJR_t$ and $SOAR_t$ 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 GT2 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> <p>8.1.12 - Paragraph (a) contains an incorrect reference to the System Operator sections of the licence and should therefore be amended to read: “...and $SOADJR_t$ and $SOAR_t$ in accordance with the calculation set out in Part C of Special Condition <u>2.3</u> (System Operator Revenue Restriction);”</p>
8.2 Annual Iteration Process for the GT2 Price Control Financial Model	<p>8.2.1 - references the determination of the terms $ADJR_t$, AR_t, $SOADJR_t$ and $SOAR_t$. 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 GT2 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 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 agree by the Price Control Financial Model Working Group.</p> <p>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</p>

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 RIIO-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 ADJRt, ARt, SOADJRt and SOARt 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 ADJRt, ARt, SOADJRt and SOARt 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 ARt or SOARt 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...”

NGGT Chapter 9 General Obligations

Condition	Comment
9.1 Annual Environmental Report	No Comments
9.2 Network Asset Risk Metric Methodology	No transitional provision to define the process and timeframe to move from a NOMs Methodology to a NARM Methodology has been included in SpC 9.2. According to FDs "The NOMs Methodology will be superseded by the NARM Methodology for RIIO-2. The NOMs Methodology in effect as at 31 March 2021 is deemed to be the NARM Methodology in effect from 1 April 2021 until superseded." As highlighted in our response to the informal licence consultation in October 2020, we would welcome further engagement and clarity on the process and timescales of how we move from a NOMs to a NARMS Methodology, which is not just the naming of the methodology document and will require a significant amount of work to update.
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. Incremental Capacity). 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(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 "...content of the..." with "<i><u>proposed</u></i>".</p>

9.5 Digitalisation

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:

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).

9.5.6 - should refer to 30 June 2021.

9.5.12(b) - should refer to Digitalisation Action Plan as per the defined term.

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.

9.5.16 - the word “The” should be added at the start of the sentence.

9.6 Disapplication of Relevant Special Conditions

9.6.2 - refers to a “Disapplication Request” which is defined in Special Condition 1.1. The definition of this term in the Special Condition 1.1 in the NGG licence is incorrect and should refer to “Relevant SO Special Conditions” in the penultimate line.

9.6.9 - Should cross refer to:

- Parts A and B in line 2;
- Part E in sub-paragraph (a); and
- Part F in sub-paragraph (b).

9.7 Directed Remunerated Services

9.7.2 - line 3 should refer to “Allowed Revenue and SO Allowed Revenue”. Existing references to TO and SO Recovered Revenue are incorrect.

	<p>9.7.10 - We propose that each individual DRS category is assigned a paragraph letter. For example,</p> <p>“a) DRS 1. Connection services..... b) DRS 2. Diversionary works under an obligation...”</p> <p>This will bring additional clarity to the paragraph and is also consistent with the drafting we have noted in other licences, for example the Electricity Transmission Licence.</p> <p>For DRS 15, we propose that the sub-paragraphs labelled (a) and (b) are amended to (i) and (ii) to avoid confusion with the DRS category paragraph labelling proposed in our previous point.</p>
<p>9.8 Tax reconciliation assurance statement</p>	<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 - The words <u>“The prescribed form for the assurance statement is as follows:”</u> have been omitted.</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 RII0-1 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(c) - has been incorrectly numbered and should be 9.8.5(b) iii.</p>
<p>9.9 Allocation of revenues and costs for calculations under the price control in respect of the NTS</p>	<p>9.9.9 - Should refer to “Part B” in the final line (the Parts have been re-labelled since the informal September consultation).</p> <p>9.9.12 - Should refer to Part B in line 2 and Part A in line 5.</p>

Transportation Owner Activity and NTS System Operation Activity (SOLARt)	
9.10 Long Term Network Planning	<p>9.10.4(b) - Should be amended to read “the likely development of that system and other pipeline systems which the licensee expects...”.</p> <p>The deletion of “facilities.....referred to in paragraph 9.10.5(a)” is consistent with the deletion made to 9.10.4(a) since the September informal consultation and the agreed position in the issues log. The existing RIIO-1 Special Condition 7A refers to 7A(6) which refers to LNG facilities but this has been deleted from Special Condition 9.10 (as no such facilities now exist).</p> <p>9.10.4(b) - delete “and” at the end of the sub paragraph.</p> <p>9.10.4(c) - Remove the reference (c). The text that follows (“where such information....” and sub-paragraphs I ii and iii) applies to both sub-paragraphs a and b and is not distinct from them.</p>
9.11 Transmission Planning Code	<p>9.11.9(b) - should be amended to read “...the requirements set out in Part B above”</p>
9.12 Licensee’s Network Model	<p>No comments</p>
9.13 Capacity Requests, Baseline Capacity and Capacity Substitution	<p>9.13.5 (c) - Funded incremental capacity can have both network reinforcement and contractual solutions. This sentence includes only “<i>and requires network reinforcement</i>” where substitution cannot be used. This should be reworded in alignment with Special Condition 3.13, paragraph 3.12.2(b), which has been updated to cover the possibility for contractual solutions: “<i>and requires an adjustment to its allowed expenditure required to release Incremental Obligated Entry Capacity or Incremental Obligated Exit Capacity that cannot be released by Entry Capacity Substitution or Exit Capacity Substitution</i>”</p> <p>9.13.9 (d) - should cross refer to paragraph 9.13.9(c) in line 2.</p> <p>9.13.9 (e) - should cross refer to paragraph 9.13.9 (b) or (c) in line 3</p> <p>9.13.9 (f) - should cross refer to paragraph 9.13.9(b) or (c) in line 2.</p> <p>Appendix 1: Final Determinations – NGGT Annex p27 Table in section “Annual network capability assessment report (ANCAR) LO” sates in relation to Capacity Baselines: “NGGT to reduce capacity baselines at two entry points at the start of RIIO-2 period, namely: St Fergus from 1670.7 GWh/d to 1500 GWh/d Theddlethorpe from 610.7 GWh/d to 0 GWh/d.”</p>

	<p>This has not been reflected in the data in the table in Appendix 1, where the original numbers are populated. Relevant figures should be corrected accordingly</p>
9.14 Prohibited Procurement Activities	<p>9.14.3 (b) - This provision refers to the defined term “Relevant Gas Transporter”. The proposed change to the definition of “Relevant Gas Transporter” with reference to 9.14.3 is not required and is also inconsistent with the existing licence condition 10D.</p> <p>It is not clear why (a) and (b) in the definition need to be excluded from the defined term as it applies to 9.14.3(b). Both the licensee and an affiliate could hold a separate relevant gas transporter licence as contemplated by 9.14.3(b).</p> <p>Accordingly in the definition of “Relevant Gas Transporter” in Special Condition 1.1, the words beginning with “except in Special Condition 9.14 should be omitted”</p>
9.15 NTS Shortfall Contribution Obligations	<p>No comments</p>
9.16 Restriction of prices in respect of Tariff Capped Metering Activities	<p>General.</p> <p>This condition should not be modified as part of the NGGT RIIO-2 licence modification process.</p> <p>The condition has nothing to do with the GT RIIO-2 price control settlement and the changes proposed in the statutory consultation have not been consulted on and are not supported by any policy rationale.</p> <p>We note from paragraph 6.82 of the reasons and effects document that the proposed amendments are to reflect changes to the finance conditions. However, this is not appropriate in the context of this condition and the metering activities to which it relates.</p> <p>The metering activity is subject to the RoMA price control which uses an RPI real rate of return. Annual inflation must also be RPI based.</p> <p>The drafting of Special Condition 9.16 should therefore replicate the drafting in the current Special Condition 11H without amendment (save for the change at paragraph 1 which removes the reference to Special Condition 11G following its deletion).</p> <p>The existing drafting includes a definition of RPI but that definition will continue to work following the start of RIIO-2 as it is calculated in accordance with standard condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) which is not being modified as part of the RIIO-2 process.</p> <p>We are happy to discuss the points raised here further but we would also encourage Ofgem to speak with National Grid Metering as the recognised agent for the metering activity if further clarification is required. We would also refer you to the statutory consultation response from National Grid Metering Ltd in</p>

	relation to the proposed changes to Special Condition 9.16 (Restriction of prices in respect of Tariff Capped Metering Activities).
9.17 Entry Capacity and Exit Capacity Obligations and Methodology Statements	No comments
9.18 Methodology to determine the release of Entry Capacity and Exit Capacity volumes	9.18.5 (b) - ends with a semicolon, should be a full stop
9.19 System Management Services.	No comments
9.20 Independent market for balancing	No comments
9.21 Provision of information	No comments
9.22 Development and implementation of a Demand Side Response methodology for use after a Gas Balancing Notification	<p>9.22.10(a)(ii) - insert</p> <ul style="list-style-type: none"> • “paragraph” after “under” in final line • “and” after “,” at the end of this sub paragraph. <p>9.22.11 - This provision is new since the informal September consultation and we would question whether it is correct or needed for the following reasons:</p> <ul style="list-style-type: none"> • Only sub-paragraph (b) of 9.22.7 provides for the giving of a direction. If there is no direction under 9.22.7(b) the proposed revisions will either have been approved under 9.22.7(a) (in which case the revisions are either implemented without a direction under (b)) or are rejected under 9.22.7(c). • If there is no direction under 9.22.10(a) then the proposed revisions will be rejected under (b) and so they cannot be implemented. <p>For these reasons we do not believe 9.22.11 is required but if it is to be retained then it should perhaps read “Where the Authority does not provide a direction under paragraph 9.22.10(a) the licensee must not...”. However, this does not recognise that a proposed revision can still be implemented following approval under 9.22.7.</p>