

To Eilidh Alexander and  
James Santos-Mansur  
Systems and Networks  
RIIO Price Controls  
Ofgem  
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[www.nationalgrid.com](http://www.nationalgrid.com)

Dear Eilidh and James,

### **Response to Ofgem's RIIO-2 Informal Licence Drafting Consultation**

We welcome the opportunity to respond to this informal consultation on the proposed modification to the licence conditions required to implement the RIIO-2 price controls. This is a single combined response on behalf of National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGGT).

Enclosed with this letter is an Executive Summary which sets out a number of key themes and concerns that emerge from the informal consultation document and associated material. Also enclosed is an Annex in which we respond to the relevant consultation questions set out in Appendix 2 to the consultation.

We have serious concerns about the consultation proposals which could have significant consequences for us and other licensees. We identify three key issues and suggested ways forward below to ensure that a complete package of licence drafting and Associated Documents (free from material errors) is ready alongside Ofgem's Final Determinations:

1. The package of proposals under consultation is incomplete in key respects. In particular, only 2 out of 22 Associated Documents referred to in the consultation document and intended to give effect to the RIIO-2 frameworks were issued at the launch of the consultation, whilst some others have been published during the consultation period. There are also material gaps in the implementation of changes to the Price Control Financial Instruments, where it appears that Ofgem's thinking is not yet complete. This situation makes it impossible to assess the overall impact of the framework, and means any appraisal is necessarily disjointed and incomplete. That is of significant concern in the context of what ought to be a carefully interrelated complete package of proposals. It also inevitably means it is difficult for us to assist Ofgem in its efforts to finalise the licences and accompanying Associated Documents, but we stand ready to do so.
2. With less than 2 months until Final Determinations are due to be published, the fundamental objective now must be to have drafting in place for the statutory licence consultations that is complete and fit for purpose. That must include both licence drafting and a full and complete suite of accompanying Associated Documents which need to be read alongside the licences. To achieve this, we must be afforded the opportunity to work closely with Ofgem over the coming weeks both to address the issues raised in this consultation response and to ensure that we all have confidence that there will not be material errors or omissions in the documents (including Associated Documents) issued at the time of the statutory consultations. That ongoing

engagement and the development of the licences and Associated Documents must also reflect the areas where thinking has progressed based upon the constructive engagement we have had with Ofgem since the publication of Draft Determinations. We will ensure that our legal, finance and policy specialists are available to work with Ofgem, bilaterally where appropriate, to resolve outstanding issues. Given the significant amount of progress that needs to be made over the coming weeks, we recommend a move to a way of working that is licensee specific. That will allow us, if it would assist Ofgem, to provide licence drafting (and further support on company specific areas) for Ofgem's consideration.

3. There continue to be a significant number of areas where material issues remain unclear, unresolved or are still under development (we refer to these issues more fully in the accompanying Executive Summary). There now needs to be urgent and concerted senior engagement between us and Ofgem in order to finalise policies quickly so the drafting can progress meaningfully in a way that reflects clear and deliberate policy intent prior to Final Determinations and the publication of the associated statutory consultations. Failure to address these matters will risk material errors emerging in the documents issued at the time of the statutory consultation.

In the Executive Summary to this response we set out our views on a number of key themes and concerns that emerge from the consultation document, the draft licence modifications and the Associated Documents together with our proposed remedies in respect of each. These key themes and concerns are:

1. We need visibility of everything that forms the price control together as a package.
2. Licensees should retain a right of appeal for material within-period changes and Ofgem needs to make timely decisions.
3. Obligations and material price control mechanisms need to sit in the licence and not Associated Documents.
4. The principal revenue restriction formula in the PCFM must be corrected.
5. Transparency and audit trail of information of the regulatory instruments is needed.
6. Policy needs to be finalised for LOTI, CPM, and Funded Incremental Obligated Capacity before any drafting is further progressed.
7. Clear linkages are needed with other price control related processes.

We provide our feedback, proposed drafting changes and other suggested remedies to address the concerns and issues raised by the informal consultation in our full consultation response which comprises the following documents:

1. This Cover Letter;
2. An Executive Summary;
3. An Annex containing our responses to Ofgem's consultation questions (set out in Appendix 2 to the consultation); and
4. A suite of Appendices to the Annex setting out our detailed views, comments and suggested licence condition drafting changes in support of our responses to those specific consultation questions which seek views on proposed licence changes. Appendix 1 also contains our detailed comments on the two draft Associated Documents published alongside the consultation: the Price Control Financial Model (PCFM) and the Price Control Finance Handbook (PCFH).

We will respond separately within the requested timeframes on the following draft Associated Documents published during the course of the consultation period:

<b>Associated Document</b>	<b>Response date</b>
Guidance on the Competition Proxy Model (CPM) Re-opener in RIIO-ET2 Guidance on the Large Onshore Transmission Investments (LOTI) Re-opener in RIIO-ET2 Guidance on Funded Incremental Obligated Capacity Reopener	6 Nov
Re-opener Guidance and Application Requirements Document including	9 Nov

Appendix 1 Cyber Resilience IT and OT Re-Opener Application Guidance and Appendix 2 Non-operational IT and Telecoms (IT&T) Capex Reopener Application Guidance	
PCD Reporting Requirements & Methodology Document	19 Nov

We hope you will find our response and supporting documents helpful in further developing the licence drafting and Associated Documents required to successfully implement RII0-2. We are conscious there is a great deal of detail yet to be resolved and we look forward to continued engagement with the Ofgem team going forward.

For queries in relation to our consultation response please contact [jonny.hosford@nationalgrid.com](mailto:jonny.hosford@nationalgrid.com) for NGGT and [leanne.evans@nationalgrid.com](mailto:leanne.evans@nationalgrid.com) for NGET.

Yours, sincerely,

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