

Distribution update from Ofgem – as of 22 February 2022

Statutory Consultation on licence changes for the Switching SCR: Standard conditions of Gas Shipper, Gas Transporter and Electricity Distribution licences

This statutory consultation sets out the proposed changes to certain licence conditions, including standard licence conditions (SLCs), to properly reflect the changes being brought about by the Switching Significant Code Review in the licences. This will ensure, for example, that the licences have introduced the necessary code requirements to enable faster, more reliable switching (the Switching Programme).

This is a statutory consultation in accordance with the Gas Act 1986 and Electricity Act 1989, concerning our proposals to modify the following licences:

- Standard conditions of Electricity Distribution Licence
- Standard conditions of Gas Shipper Licence
- Standard Special Conditions (SSCs) applicable to both National Transmission System and Distribution Network Licensees – Part A

The subsidiary documents set out the proposed changes against the up to date version of the consolidated licence conditions available on our website at the time of publishing, the definitive sources for which (not including the changes proposed in this consultation) are available on the Electronic Public Register.

We would like views from holders of these licences. We would also welcome responses from any other interested stakeholders and the public. Please send responses to Nicola Garland at switching.programme@ofgem.gov.uk by 21 March 2022.

URL: <https://www.ofgem.gov.uk/publications/statutory-consultation-licence-changes-switching-scr-standard-conditions-gas-shipper-gas-transporter-and-electricity-distribution-licences>

4 February 2022 Price Cap Decisions

On 4 February 2022, Ofgem published a range of decision documents relating to the default tariff cap (the 'cap') methodology. Following consultations with industry stakeholders, we have made routine methodology decisions to ensure that the cap better reflects the costs of supplying energy, as well as decisions in response to the recent wholesale market volatility and to allow the cap to respond flexibly to exceptional or unprecedented market changes in the future.

The link below summarises the package of decisions we have made, in addition to guidance for suppliers on treatment of reasonable risk management practices in future default cap proposals.

URL: <https://www.ofgem.gov.uk/publications/overview-4-february-2022-price-cap-decisions>

RIIO2 Re-opener Guidance and Application Requirements Version 2

This document sets out the regulation, governance and administration of the RIIO-2 Re-openers and will take effect from 3 February 2022 and replaces the previous document published on 26 February 2021.

We have consulted on the modifications to the previous Re-opener Guidance and Application Requirements document. The comments we received to this consultation are reflected in the updated Re-opener Guidance and Application Requirements Version 2. The new version should be read in conjunction with Special Condition 9.4 (Re-opener Guidance and Application Requirements Document) of the Gas Transporter and Electricity Transmission licences. This document and its content are in line with our RIIO2 Final Determinations.

URL: <https://www.ofgem.gov.uk/publications/riio2-re-opener-guidance-and-application-requirements-version-2>

Decision on the proposed modifications to the RIIO-2 Transmission, Gas Distribution and Electricity System Operator licence conditions – 1 April 2022

On 15 December 2021, we published a statutory consultation on proposed changes to the licence conditions that implement the CMA's Order on RIIO-2 Appeals for the transmission companies, gas distribution networks and the electricity system operator. The statutory consultation also included a number of proposed snagging and additional changes.

We received 9 responses to the statutory consultation. Following careful consideration of these responses, we have decided to implement the licence modifications as set out in the notices that we have published. The licence modifications will come into effect on 1 April 2022.

URL: <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-1-april-2022>

Net Zero Pre-construction and Small Net Zero Projects Re-opener

This document sets out the detailed arrangements for this re-opener, including scope and minimum funding threshold.

We have consulted on the Net Zero Pre-construction and small Net Zero Projects Re-opener Governance Document as part of our statutory consultation on modifications to the RIIO2 licence conditions and associated documents. This should be read in conjunction with Special Condition 3.9 of the Gas Transporter Licence.

We have received views on our draft of the Net Zero and Re-opener Development Fund Governance Document and have taken into consideration those comments within the final publication on 3 February 2022.

URL: <https://www.ofgem.gov.uk/publications/net-zero-pre-construction-and-small-net-zero-projects-re-opener>

Northern Gas Network's Funding Direction for City CNG Project

This funding direction, published 1 February 2022, sets out the amount NGN must return after closure of their City CNG Project.

URL: <https://www.ofgem.gov.uk/publications/northern-gas-networks-funding-direction-city-cng-project>

Republication of RIIO-GD2 and RIIO-ESO Price Control Financial Model following the Annual Iteration Process 2021

On 30 November 2021, Ofgem published the results of the Annual Iteration Process (AIP), for the Electricity System Operator (ESO) and Gas Distribution (GD) licensees under the RIIO-2 network price controls. The AIP updates allowed revenues, which licensees must use when setting their charges for the next regulatory year (2022/23). The Authority may republish the value of Allowed Revenue (ARt) and Adjusted Revenue (ADJRt) after 30 November and before 30 January prior to each regulatory year in accordance with licence.

This republication process is set out in further detail in Chapter 2 of the Price Control Financial Handbook and enables licensees to reflect the impact of any unforeseen events on their allowed revenue in time for them to set tariffs, where these events have or are estimated to have a material

impact on their allowed revenues. Since the publication of the AIP in November 2021, there have been material changes to the following values in the GD2 PCFM:

- Shrinkage – shrinkage reflects the cost of gas lost from the gas distribution network. As such, the unprecedented increase in gas prices has led to updated shrinkage cost forecasts
- Bad debt – bad debt cost forecasts have been updated to reflect the increased volatility in the market
- Supplier of Last Resort (SoLR) forecast – SoLR cost estimates have been updated in line with guidance from the Authority.

The Authority gave the GD and ESO licensees notice of the value of ADJRt, ARt and SOIARt on 14 January 2022. The reason for and effect of this re-publication is to revise the PCFM Variable Values to re-calculate the values for the Allowed Revenue and Adjusted Revenue terms for the GD and ESO licensees.

The re-published values for ADJRt, ARt and SOIARt following the November 2021 AIP are shown within the GD2 and ESO Price Control Financial Models published on this page.

URL: <https://www.ofgem.gov.uk/publications/republication-riio-gd2-and-riio-eso-price-control-financial-model-following-annual-iteration-process-2021>

Decision on modifications regarding Last Resort Supply Payment Claim deadlines for gas transporter licence conditions

On 23 December 2021, we consulted on proposed modifications regarding Last Resort Supply Payment Claims for the gas transporter licence. This decision below, published 28 January 2022, is our direction to modify the Gas Transporter licence to amend the deadline for submitting Last Resort Supply Payment Claims.

URL: <https://www.ofgem.gov.uk/publications/decision-modifications-regarding-last-resort-supply-payment-claim-deadlines-gas-transportation-licence-conditions>

UNC765: New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020 – Authority Decision

The purpose of this modification is to create new debit and credit charges to recover and redistribute the revenues received from daily interruptible and within-day obligated Entry Capacity from Capacity Neutrality arrangements between 1 October 2020 and 31 December 2020.

On 28 January 2022, we decided to reject this modification to the UNC.

URL: <https://www.ofgem.gov.uk/publications/unc765-new-retrospective-debit-and-credit-charges-reflect-changes-treatment-entry-capacity-revenue-between-october-and-december-2020>

UPDATE: Code modification/modification proposals with Ofgem for decision – Expected publication dates timetable

URL: <https://www.ofgem.gov.uk/publications/code-modificationmodification-proposals-ofgem-decision-expected-publication-dates-timetable>