

**New Action 0802:** DNs and Ofgem to provide clarification of charge setting in the RIIO-2 period given the Modification 0678A change; and if there are any proposed changes with the mechanics of setting allowances and true-ups. Response required by 20 August 2020.

From NGN's perspective:

- We will work with Ofgem to ensure that GD2 final proposal allowances reflect the updated 678 unit rates. (Draft determinations published did not include this but we adjusted for it when we published our June Mod186 statement)
- A quick summary of impacts are:
  - NGN will incur additional costs from October 2020 to March 2021 of c. £2.5m per month with no corresponding revenue allowance increase. This shortfall should be trued up in 22/23 - unless there is a change to GD1 true up methodology but at the current time we are not aware of any.
  - We are aware of a potential change being considered based on a rolling forecast process of revenue each year which would include latest forecasts and potentially remove the 2 year lag for GD2 future years. Ofgem should consult on any changes from the current licence methodology though.
  - New revenue allowances from 1<sup>st</sup> April 2021 should reflect the new 678 methodology so networks costs and revenue allowances match. NGN's allowance will be on average c. £41m per year in GD2. Average allowances per year in GD1 were £7.9m.
  - If GD1 true up methodology remains as is, the biggest impact will be in 22/23 – when GD2 base allowances are on the new methodology (c. 41m per year) plus we will have a true up of c. £15m as well from the revenue shortfall during 20/21.
  - Based on an annual quantity of 14,000 Kwh per year an average domestic customer will see exit charges increase by c. £8 per year in the NGN region when compared against GD1.
- When we publish our unit rates in January 2021 for 21/22 regulatory year these will be set using final proposal data for GD2 of which should include the new allowances for exit capacity 678.