

Decision on the Closeout of the RIIO-GD1 Tax Clawback for WWU

Subject	WWU Tax Clawback Closeout for RIIO-GD1
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The RIIO-GD1 price control ran from 1 April 2013 to 31 March 2021. We consulted on our proposed methodology for closing out the RIIO-GD1 Tax Clawback mechanism for WWU on 14 January 2022. This document sets out our methodology decision following this consultation. This methodology will be included in the RIIO-GD2 Price Control Financial Handbook.

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1. Related publications

Consultation on the methodologies to close out RIIO-GD1

<https://www.ofgem.gov.uk/publications/consultation-closeout-methodologies-riio-gd1>

Decision on the closeout methodologies for RIIO-GD1

<https://www.ofgem.gov.uk/publications/decision-closeout-methodologies-riio-gd1>

RIIO-GD1 Final Proposals Finance Annex

<https://www.ofgem.gov.uk/publications/riio-gd1-final-proposals-overview>

Supplementary documents to the RIIO-GD1 Final Proposals

https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiogd1_fp_finance_and_uncertainty_0.pdf

GD1 Price Control Financial Handbook

[riio-gd1-price-control-financial-handbook_0.pdf \(ofgem.gov.uk\)](#)

RIIO-2 Final Determinations for Transmission and Gas Distribution Network Companies

www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator

2. Decision

Background

Policy and mechanism

2.1. Ofgem calculates licensees' tax allowances on a notional basis, which includes using an assumed gearing level, i.e., notional gearing.¹ Because interest on debt is tax deductible, highly geared licensees pay less tax than the notional allowance. The tax clawback mechanism is designed to recoup part of the notional tax allowance for licensees that have higher gearing and thus pay less tax than they otherwise would. Were there to be no tax clawback policy, those licensees would receive allowances for tax they do not in fact pay.

2.2. The decision to implement the mechanism and the methodology for calculating the level of clawback were set out in an open letter published on 31 July 2009² (the '2009 Open Letter'). The methodology provided, among other things, that when calculating a licensee's actual interest for this purpose:

"Interest includes:

- *Actual net interest (payable less receivable) for the price controlled business extracted from regulatory accounts, used on an accruals basis*
- *Interest on index-linked debt based on the charge to the income statement in regulatory accounts (i.e. on an accruals basis)*

Interest excludes:

- *Any interest that would otherwise be included, but which does not qualify for corporation tax relief*
- *Movements relating to pension fund liabilities reported in the regulatory accounts within net interest*
- *Fair value adjustments (e.g. losses on derivatives) - Dividends on preference shares*

¹ The Price Control Financial Model (PCFM) calculates modelled or "notional" values for gearing and interest costs. These modelled values are compared against actual net debt and interest costs by the Tax Clawback mechanism.

² See [here](#).

- *The cost of retiring long term debt early (including exceptional debt redemption costs)*
- *Debt issuance expenses (including amortisation charges relating to discounts on debt issuance that had previously benefitted from a deduction against taxable profits)*
- *The cost of maintaining committed undrawn liquidity backup lines (i.e. commitment fees)”*

Calculation and determination of the clawback value in the pre-RIIO-GD1 and RIIO-GD1 periods

2.3. In the pre-GD1 period,³ the clawback adjustment was made ex-post, i.e., it was calculated at the end of the price control period. An adjustment was made to reduce a licensee’s tax allowance if both actual gearing and interest expense exceeded notional levels.

2.4. In RIIO-GD1, the clawback adjustment was done annually through the Tax clawback (TGIEt) variable value, which was updated in the RIIO-GD1 Price Control Financial Model (PCFM)⁴ at each Annual Iteration Process (AIP) and fed into the re-calculation of revenue allowances.

2.5. The calculation of TGIE was done in a separate ‘Tax Clawback Model’ and compared the modelled figure for tax deductible net interest costs and the licensee’s indicative Regulatory Asset Value (RAV), which is used as a proxy for the asset value, from the PCFM against the equivalent actual values that licensees reported to us through their Regulatory Instructions and Guidance (RIGs) submissions.⁵ We then used two tests to determine the value for TGIE: a gearing level test and a positive benefit test.

2.6. In the gearing level test, the licensee’s actual net debt figure as reported in its RIGs reporting pack was divided by the licensee’s indicative PCFM RAV to obtain an actual calculated gearing ratio. If this ratio was greater than the notional level that was set at RIIO-

³ The Gas Distribution Price Control Review (GDPCR) preceded the RIIO-GD1 price control and ran from 1 April 2007 to 31 March 2013.

⁴ Now referred to as the “GD1 Legacy PCFM”.

⁵ The licensee is required to submit its price control cost reporting pack by 31 July of each year, in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance) of the gas transporter licence.

GD1 Final Proposals, i.e., 65% for the GDNs, then the gearing test was met and the positive benefit test was then performed.

2.7. In the positive benefit test, the modelled interest was subtracted from actual net interest reported and the difference, if positive, was multiplied by the corporation tax rate and the resultant revenue benefit went into the TGIE variable value to be clawed back from the licensee's tax allowance.

Tax Clawback and WWU

2.8. In 2015, WWU sought guidance from Ofgem on, amongst other things, the composition of the net interest value used for the tax clawback calculation and requested that derivative-related costs be excluded from the calculation. WWU's view was, and still is, that accretion expense on index-linked debt is a "tax deductible non-cash finance charge" and so fell to be excluded from the definition of actual interest in the 2009 Open Letter. Ofgem responded to WWU by letter (the '2015 Letter') (i) correctly noting that the definition of "actual interest" in the 2009 Open Letter excludes "fair value adjustments (e.g. losses on derivatives)" and (ii) incorrectly concluding therefrom that "inflation related expenses and income both accrued and actual should be excluded from the value of adjusted tax deductible net interest paid for the purposes of RIIO GD1 tax clawback adjustment calculations". This appeared to confirm WWU's view as to the interpretation of actual interest in the 2009 Open Letter.

2.9. The 2015 Letter from Ofgem to WWU was mistaken. In fact, a "fair value adjustment" has no profit and loss impact; it is distinct from the interest payments accrued and periodically incurred by the parties to a swap contract and would be readily understood by regulatory finance professionals to be distinct. Our view is that the inflation expense that WWU sought to exclude from its net interest costs is in substance a form of interest charge that attracts tax relief, and which therefore should be treated in the same way that interest on index-linked debt is treated, which is clearly specified in the 2009 Open Letter as being included in actual interest. The objective of the policy is that highly geared companies are not inadvertently perversely incentivised to enter into more index-linked derivatives over index-linked debt by allowing payments on the former to be exempt from the tax clawback, thereby providing a revenue benefit to a licensee through its notional tax allowance.

2.10. The 2015 Letter was sent to WWU only and was not drawn to the attention of other network licence holders. With the exception of WWU, no other network licence holder has queried the treatment of interest liabilities under derivative contracts for the purposes of the

tax clawback. Ofgem has not seen any instances in which a licensee - other than WWU - has excluded interest or inflation accretion payments associated with derivatives from its “actual interest” figure reported for the purpose of the tax clawback.

2.11. In early 2019, after a review of the 2009 Open Letter and of draft network company Regulatory Financial Performance Reporting (RFPR) submissions, we considered that the guidance on what should and should not be included in net interest should be clarified beyond all possible doubt to ensure that the net interest figure reported by network companies aligned with the original policy intent of the clawback mechanism. There had been staff changes at Ofgem between 2015 and 2019, and at the time of the 2019 review Ofgem was not aware of the mistaken position which had been taken in its 2015 Letter to WWU.

2.12. In March 2019, we consulted on modifying the RFPR RIGs to make clear that: “We would expect Net Interest Per Regulatory (RIIO-1) definition to include all inflation derivative payments that attract tax relief (**because this definition is used for tax clawback**) ...”⁶ (emphasis added). WWU responded to that consultation, indicating that it appeared to conflict with the advice in the 2015 Letter.⁷

2.13. In April 2019, we published our decision on the modifications, which included the clarificatory text in paragraph 2.12 above.⁸ WWU contacted Ofgem shortly after querying the April 2019 decision in light of the 2015 Letter requesting clarity on the treatment of the inflation expense on its RPI-linked derivatives.

2.14. Ofgem did agree to a single adjustment for WWU in October 2019 so that a particular derivative payment should be reflected in the 2013/14 period and not in the 2018/19 period as WWU had originally requested. No reference was made to any other periods. Indeed, on 4 October 2019, Ofgem emailed all network licensees reminding them that it had clarified the definition of net interest and net debt in the RIIO-1 RFPR RIGs in its 30 April 2019 decision and instructed all licensees to use in their upcoming RFPR submissions the value reported as “Net Interest Per Regulatory (RIIO-1) Definition” for the purposes of the tax clawback. This was to ensure that there was no room for doubt as to the treatment of derivative inflation payments as regards the net interest calculation.

⁶ See the consultation [here](#).

⁷ See “Appendix 1 – Stakeholder representation” for WWU’s response, [here](#).

⁸ [Direction to introduce Regulatory Financial Performance Reporting \(RFPR\) | Ofgem](#)

2.15. In late 2020, WWU approached Ofgem requesting that a number of adjustments be applied to tax-related variable values for RIIO-GD1 and the pre-RIIO-GD1 period.

2.16. During these discussions, we explored potentially 'grandfathering' the treatment set out in the 2015 Letter. Ofgem engaged in these discussions in good faith in the belief that WWU must not have been aware of, or must not have fully understood, the change in guidance on the treatment of derivative costs following the RFPR consultation in 2019. However, WWU did in fact respond to the relevant consultation and was aware of its outcome. Given this, Ofgem should not have entertained discussions about grandfathering the treatment in the 2015 Letter. WWU's position is that it continued to rely on the 2015 Letter, notwithstanding the generally applicable clarification in the RFPR RIGs, until December 2020 when Ofgem explicitly informed WWU that the 2015 Letter was a mistake.

2.17. Because of the ongoing discussions between WWU and Ofgem, and the imminent need to publish the draft RIIO-GD2 PCFM for consultation in December 2020 so that the final version could come into effect for the beginning of RIIO-GD2 on 1 April 2021, Ofgem made a provisional adjustment to the GD1 Legacy PCFM to apply the treatment set out in the 2015 Letter to pre-GD1 net interest. For the same reasons, we also did not at that stage correct the RIIO-GD1 TGIE values, which were based on the treatment set out in the 2015 Letter. These amounts fed into the RIIO-GD2 PCFM that was published on 3 February 2021 through the LRAV and LAR terms.

2.18. However, as was made clear to WWU throughout the course of the discussions, those legacy adjustments were provisional, and estimates were being used until we were able to close out the RIIO-1 price controls. This was noted in the RIIO-GD2 Draft Determinations as follows:⁹

Consultation Position

Output parameter	Consultation Position
Close-out adjustments	To use estimated values for closeout adjustments until we are able to close out the RIIO-1 price controls.

⁹ [RIIO-2 Draft Determinations](#), page 155

11.24 Where we have used estimates, we will then true these up and apply any further incremental adjustments to RIIO-2 RAV and revenue allowances, once the required outturn information becomes available.

and Final Determinations:¹⁰

Final Determination

Parameter	Final Determination	Draft Determination
Close-out adjustments	To use estimated values for close-out adjustments until we are able to close out the RIIO-1 price controls.	Same as FD

...

Legacy RAV balance

11.24 As above, we will take the closing RAV balance, capital allowance pool balances and regulatory tax loss balance from the RIIO-1 PCFM that was used to calculate the provisional LMOD2022/23 value.

*11.25 These closing balances will reflect actual data for 2019/20 and forecast data for 2020/21 and will be used as the opening balances for RIIO-2. As we will not have actual data for 2020/21, **these balances represent our best estimate of opening RAV for RIIO-2 and remain under review until we can close out the RIIO-1 price controls.***

Legacy adjustments to revenue (LART)

11.26 We will use a modified RIIO-1 Revenue RRP to calculate the revenue adjustments which currently fall outside of the RIIO-1 PCFM and operate on a two-year lagged basis. These are revenues and costs such as pass-through items, the

¹⁰ [RIIO-2 Final Determinations](#) page 119 and paragraphs 11.24-11.27

revenue correction factor and non-totex incentives and will be calculated for the 2021/22 regulatory year, for which we have actual data.

*11.27 The revenue adjustments for the 2022/23 year will contain forecast data and **will remain under review until we can close out the RIIO-1 price controls.***
(emphasis added)

2.19. Ultimately, Ofgem did not agree to the adjustments proposed by WWU and so the provisional legacy adjustments included in the RIIO-GD2 PCFM on 3 February 2021 need to be corrected.

2.20. WWU subsequently brought an appeal to the Competition and Markets Authority (CMA) in respect of tax clawback as part of its RIIO-2 appeals.¹¹

GD1 Closeout Methodologies consultation

2.21. On 14 April 2022, we consulted on the methodologies for closing out GD1.¹² For tax clawback, we sought views on our proposals for closing out the mechanism for WWU for both the GD1 and pre-GD1 periods:

- (a) For the tax clawback values relating to the pre-GD1 period, we proposed to correct the variables that reflect the pre-GD1 net interest, i.e. the TART¹³ variable value and the opening regulatory tax loss input value, so that they no longer include the retrospective application of the treatment set out in the 2015 Letter.¹⁴
- (b) For the GD1 period, we proposed two options for adjusting the tax clawback variable value (TGIE)¹⁵:

¹¹ The CMA recently dismissed WWU's appeal in respect of tax clawback during RIIO-GD2, and considered that the issue of recovering tax clawback from before RIIO-2 was out of scope of the RIIO-2 appeals process – see chapter 16 of the [CMA's Final Determinations](#).

¹² [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

¹³ The TART variable value is the tax-specific element of the Legacy Allowed Revenue (LART) which allows us to feed any adjustments that impact the tax allowance from the pre-RIIO price control into RIIO-GD1 allowances.

¹⁴ Paragraph 8.23: [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

¹⁵ Paragraph 8.24: [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

- (i) Correct the net interest values used to calculate the TGIE value for all years of RIIO-GD1, thereby removing in its entirety the erroneous treatment of net interest set out in the 2015 Letter; or
- (ii) Correct the net interest values used to calculate the TGIE value for part of the RIIO-GD1 price control period and allow the treatment of net interest set out in the 2015 Letter between 2014/15 and 2018/19 only.

2.22. We estimated the impact of our proposed first option would be a £68m (nominal terms) reduction to WWU's RIIO-GD2 allowed revenues and the impact of our proposed second option would be a £38m reduction.

2.23. We ultimately decided to carve tax clawback out of our recently published GD1 Closeout Methodologies Decision as we needed time to consider the issue further.¹⁶

Consultation response and Ofgem view

2.24. WWU was the only stakeholder to respond to the tax clawback questions in our GD1 Closeout Methodologies Consultation.¹⁷ In summary, WWU disagrees with our proposals and maintains its view that it is entitled to the benefit of the treatment in the 2015 Letter for both the pre-GD1 and GD1 periods. Its response can be broken down into three broad categories.

Fairness of Consultation

2.25. WWU noted that the consultation "presented a one-sided and inaccurate picture of the situation" and that this "fundamentally undermines the consultation exercise". WWU suggested that the consultation contained "factual inaccuracies" and failed to describe the WWU perspective adequately.

2.26. We disagree that the consultation process was unfair or unlawful as WWU suggests. The purpose of the consultation was to set out Ofgem's position on the matter and the proposed course of action to close out tax clawback for WWU for GD1 and pre-GD1, not to

¹⁶ Paragraph 8.2: [Decision on the closeout methodologies for RIIO-GD1 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/consultation/decision-on-the-closeout-methodologies-for-riio-gd1)

¹⁷ The consultation response from WWU has not been published alongside this document as the section relating to tax clawback has been redacted due to confidentiality. As such, we consider that publishing it would be of little to no value to stakeholders.

set out a detailed history of the arguments that were made before the CMA. We do not agree that it contained “factual inaccuracies”, but rather a difference of opinion and interpretation, which has been ongoing between Ofgem and WWU for some time.

2.27. As noted above, we carved tax clawback out of our recent GD1 Closeout Methodologies Decision to give it further consideration and we have also had a number of bilateral telephone conversations with WWU to discuss its concerns. We have given careful consideration to the points raised by WWU at each stage.

Reliance on the 2015 Letter

2.28. WWU stated that it placed reliance on the 2015 Letter from the date which it was received until December 2020, when Ofgem explicitly informed WWU in writing that it considered the advice in the 2015 Letter to be incorrect. WWU notes that it should be “able to rely without question on that assurance being honoured” and that the “2015 Letter created a legitimate expectation which Ofgem is obliged to honour unless there is an overriding public interest to the contrary”.

2.29. We discuss our view on the 2015 Letter in more detail below. However, in our view, any potential expectation arising from the 2015 Letter would have been defeated with effect from April 2019 by our RFPR RIGs modification decision. That was a generally applicable modification decision of which WWU was aware. Any reliance by WWU on the 2015 Letter after that time would not have been reasonable. We note that in its Final Determination on the RIIO-2 appeals, the CMA agreed with this stating, “[w]e agree with GEMA that any expectation that would have arisen as a result of the 2015 Letter would have been defeated by the RFPR Decision”.¹⁸

2.30. We also consider that any purported expectation would have been limited to the RIIO-GD1 period, i.e. from 1 April 2013, and would not apply to the pre-RIIO-GD1 period, which came to an end on 31 March 2013. This is because the 2015 Letter itself referred only to the RIIO-GD1 period and did not refer to the pre-GD1 period.

Potential Grandfathering

¹⁸ See paragraph 16.125: [Final determination Volume 3: Individual Grounds \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671112/final-determination-volume-3-individual-grounds.pdf)

2.31. In its consultation response, WWU referred to discussions with Ofgem between late 2020 and February 2021 in which Ofgem considered potentially grandfathering the treatment of derivative payments for tax clawback set out in the 2015 Letter for pre-GD1, GD1 and GD2, i.e. applying that treatment to all of those periods. These are discussed in paragraphs 2.15 – 2.19 above.

2.32. WWU stated that it does not understand why those discussions have now been abandoned and that it is “both procedurally and substantively unfair” that Ofgem has not chosen to revisit and continue those discussions, which were not concluded upon at the time.

2.33. As was made clear to WWU at the time, those discussions were informal, preliminary and never reached a conclusion. At one stage during the discussions, Ofgem did consider allowing WWU to grandfather the treatment set out in the 2015 Letter, i.e. to allow that treatment to continue to apply for all of its existing derivatives for the RIIO-GD1, RIIO-GD2 and the pre-GD1 period, but only on the basis that this treatment would not apply in the event that any of the existing derivative contracts were modified, restructured or otherwise amended unless pre-agreed by Ofgem.

2.34. WWU did not consider these terms to be satisfactory and so no formal grandfathering was agreed upon, nor was the retrospective application of the 2015 Letter to the pre-GD1 period agreed. We do not consider it appropriate, particularly in light of the CMA’s Final Determination in the RIIO-2 appeals and the objective of the policy as explained above, to restart those discussions now.

Closeout Methodology Decision and Rationale

2.35. The aim of the tax clawback policy is to ensure that networks do not receive a tax allowance for costs which attract tax relief, i.e. they do not get an allowance for tax they do not pay. The tax clawback mechanism is a rational policy and generally achieves this aim. However, as noted above, the advice in the 2015 Letter as regards the treatment of derivatives was incorrect. That advice was given in error. Although we consider the 2009 Open Letter to have been clear as to the objective of the policy, and we do not necessarily accept that there was any lack of clarity in that letter, the April 2019 RFPR RIGs modification decision put the issue beyond doubt. That decision made very clear, to the extent (which is not accepted) there was any lack of clarity until that point, that inflation-related expenses

(or income), which attract tax relief are to be included in the calculation of actual net interest.¹⁹

2.36. Inflation accretion expense on index-linked swaps should be treated in the same way it is treated for index-linked debt. This is because excluding the inflation accretion payment on swaps from the net interest calculation would perversely incentivise highly geared companies to take out inflation-linked swaps over bonds to exclude interest costs from the tax clawback calculation whilst still benefitting from the full tax allowance. We do not think this would be in consumers' interests.

Pre-GD1 adjustments

2.37. We have decided that the variables reflecting the provisional, pre-GD1 net interest adjustment made to the GD1 Legacy PCFM and consequentially reflected in the GD2 PCFM, should be corrected, i.e. that the TART variable value and the opening regulatory tax loss input values should not include the retrospective application of the treatment set out in the 2015 Letter. We do not consider it appropriate to apply the treatment set out in the 2015 Letter retrospectively to the pre-GD1 period. The (erroneous) advice in that letter related to GD1 only and did not refer to the pre-GD1 period. Furthermore, as noted in paragraphs 2.17-2.19 above, the pre-GD1 adjustments in the GD1 Legacy PCFM were included on the basis of the grandfathering discussions at the time, which were ultimately never agreed. Those adjustments were included in error and need to be reversed out from the GD1 Legacy PCFM.

2.38. We estimate the impact of these pre-GD1 correcting adjustments on RIIO-GD1 revenues to be a £12.8m reduction (in nominal terms) to WWU's RIIO-GD2 allowed revenues.

RIIO-GD1 adjustments

2.39. As noted above, the advice in the 2015 Letter, which stated that "inflation related expenses and income both accrued and actual should be excluded from the value for adjusted tax-deductible net interest paid for the purposes of RIIO GD1 tax claw back adjustment calculations", was incorrect. This was clarified for all licensees in our April 2019 RFPR RIGs modification decision.

¹⁹ Page 17 of RFPR Guidance: [Direction to make modifications to the Regulatory Instructions and Guidance \(RIGs\) for RIIO-GD1 \(version 6.0\) | Ofgem](#)

2.40. We do not accept that a mistake on the part of Ofgem such as the one made in the 2015 Letter necessarily gives rise to a legitimate expectation. Nor do we accept that any purported expectation could not be frustrated where there is a strong countervailing public interest. However, we also consider it regrettable that the error was allowed to occur, and that it persisted for some time. We further note WWU's assertion that it has relied on the advice in the 2015 Letter and arranged its affairs on that basis, over a number of years. In the particular circumstances of this case, we have decided to allow the treatment set out in the 2015 Letter for the period from 1 April 2013 to 29 April 2019.²⁰

2.41. We will correct WWU's net interest values used to calculate the TGIE value for the period from 30 April 2019 to 31 March 2021, since any expectation on WWU's part (whether or not it amounted to a legitimate expectation in public law terms) was or should have been defeated as a result of the April 2019 RFPR RIGs modification.

2.42. The effect of our decision in respect of the RIIO-GD1 adjustment will be to increase WWU's TGIE values for two of the eight years of the RIIO-GD1 price control period, thereby reducing revenues in those two years and resulting in a negative LMODt²¹ adjustment. We estimate the impact of this reduction in GD1 revenues will be a £30.38m reduction to WWU's RIIO-GD2 allowed revenues (in nominal terms).

Implementation

Pre-GD1 adjustments

2.43. As noted in our RIIO-GD1 Closeout Methodologies Consultation, we provisionally corrected the pre-GD1 net interest values²² as part of the November 2021 Annual Iteration Process.²³ As discussed in paragraph 2.37 above, this was done to correct an erroneous position, which had been provisionally reflected in the GD1 Legacy PCFM as a result of the grandfathering discussions that were never agreed.

2.44. The inclusion of these pre-GD1 adjustments in the GD1 Legacy PCFM and consequentially the RIIO-GD2 PCFM was an error and one that we chose to correct at the

²⁰ The RIGs modification came into effect on 30 April 2019.

²¹ Paragraphs 2.5 - 2.7: [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

²² Paragraph 8.31: [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

²³ See November 2021 AIP publication: [RIIO-2 Annual Iteration Process 2021 for Transmission, Gas Distribution and the Electricity System Operator | Ofgem](#)

earliest opportunity. The result of our decision is that the correction that we made in November 2021 will remain in the GD1 Legacy PCFM and the RIIO-GD2 PCFM.

RIIO-GD1 adjustments

2.45. For the RIIO-GD1 adjustments, we will amend the net interest values in WWU's tax clawback calculation for the period 30 April 2019 to 31 March 2021 to remove the treatment of inflation-related derivative payments and income set out in the 2015 Letter. This will be reflected in the TGIE variable value, which will feed into the GD1 Legacy PCFM and will generate updated values for LMOD and LRAV, which will feed into the RIIO-GD2 PCFM and adjust RIIO-GD2 allowed revenues.

2.46. This implementation process is set out in further detail in Chapter two of our GD1 Closeout Methodologies Decision.²⁴

²⁴ See Paragraph 2.7 and Figure 1: [Decision on the closeout methodologies for RIIO-GD1 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/decision-on-the-closeout-methodologies-for-riio-gd1)

3. Next steps

3.1. This is our final decision on the matters set out in our consultation document dated 14 January 2022.²⁵ However, as noted in our GD1 Closeout Methodologies Decision, we will engage with WWU and the other Gas Distribution Networks (GDNs) through a series of Legacy PCFM Working Group meetings to agree on the precise adjustments to the values in the GD1 Legacy PCFM and the updates to the Legacy Revenue RRP that are required to reflect the correct closing position for RIIO-GD1 through the Annual Iteration Process.²⁶

3.2. We note that the values used in the Tax Clawback section of our GD1 Closeout Methodologies Consultation and in this decision are estimates and are subject to change through the finalisation of the closeout process, which will be discussed with GDNs at the Legacy PCFM Working Group meetings. The estimated values in this document are included to give stakeholders an idea of the potential materiality of the adjustments only. The precise values will not be finalised until we have concluded the Legacy PCFM Working Groups. This approach applies to all areas of the close-out of RIIO-GD1.

3.3. Once those working groups have concluded, we will consult on the modified GD1 Legacy PCFM and Legacy Revenue RRP and the variable values to be used in a future Annual Iteration Process. We will not revisit this decision on the applicable principles at that time.

²⁵ See chapter 8: [Consultation on the closeout methodologies for RIIO-GD1 | Ofgem](#)

²⁶ Paragraph 2.18: [Decision on the closeout methodologies for RIIO-GD1 \(ofgem.gov.uk\)](#)