

To:

National Grid Electricity Transmission Plc
SP Transmission Limited
Scottish Hydro Electric Transmission Plc
National Grid Electricity System Operator Limited
Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales & West Utilities Limited
National Grid Gas plc

Electricity Act 1989

Section 11A(2)

Gas Act 1986

Section 23(2)

Notice of statutory consultation on a proposal to modify the special conditions of the Gas Transporter and Electricity Transmission licence

Each of the companies to whom this notice is addressed holds

- A gas transporter licence, granted or treated as granted under section 7 of the Gas Act 1986 ('the Gas Act'); or
- An electricity transmission licence granted, or treated as granted, pursuant to section 6(1)(b) of the Electricity Act 1989 ('the Electricity Act').

In accordance with section 11A (2)- of the Electricity Act, and section 23(2)- of the Gas Act, the Gas and Electricity Markets Authority ('the Authority') gives notice that it proposes to modify the special licence conditions, Price Control Financial Handbook, and Price Control Financial Model in the manner set out in the schedule attached to this notice and described in the consultation document accompanying this notice.

We are proposing this licence modification so that when Ofgem directs the relevant values, the licence instruments can facilitate the financial effect of the:

- Decision on the closeout methodologies for RIIO-GD1¹
- Decision on the closeout methodologies for RIIO-ET1²

¹ Ofgem, "[Decision on the closeout methodologies for RIIO-GD1](#)", 14 April 2022.

² Ofgem, "[Decision on the closeout methodologies for RIIO-ET1](#)", 24 May 2022.

- Decision on the closeout methodologies for RIIO-GT1³
- Decision on the RIIO-1 close out methodologies for the Electricity System Operator⁴

A copy of this proposed modification has been published on our website (<https://www.ofgem.gov.uk>). Alternatively, it is available from foi@ofgem.gov.uk.

The reasons for and the effects of the proposed modifications are set out in the consultation document accompanying this notice.

The text of the proposed modification is set out in the schedules to this Notice, as follows:

- Schedule 1: Gas Transmission
- Schedule 2: Gas Distribution
- Schedule 3: Electricity Transmission TO
- Schedule 4: Electricity Transmission SO
- Schedule 5: RIIO-2 Price Control Financial Models

The text of the proposed modifications are set out below, with the text to be deleted marked with ~~striketrough~~ and new text to be inserted shown double underlined.

Any representations with respect to the proposed licence modification must be made on or before 21 October 2022 to: Peter Lomas and Penny Harandy, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to RegFinance@ofgem.gov.uk.

We normally publish all responses on our website. However, if you do not want your response to be made public, then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Jourdan Edwards
Deputy Director
Duly authorised on behalf of the
Gas and Electricity Markets Authority

23 Sep 2022

³ Ofgem, "[Decision on the closeout methodologies for RIIO-GT1](#)", 14 April 2022.

⁴ Ofgem, "[Decision on the RIIO-1 close out methodologies for the Electricity System Operator](#)", 6 April 2022.

Schedule 1 (Part A) - NGGT Special Conditions

Special Condition 7.3 Transportation owner legacy MOD ($LMOD_t$)

Introduction

- 7.3.1 The purpose of this condition is to set out the process the Authority will follow when directing values for $LMOD_t$ (the transportation owner legacy MOD term). This contributes to the calculation of the term LAR_t (the transportation owner legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Transportation owner revenue restriction).
- 7.3.2 The effect of this condition is to reflect the close out of the GT1 Price Control Financial Model.

Part A: Authority Assessment and direction

- 7.3.3 For Regulatory Years commencing on 1 April 2021 and 1 April 2022, ~~the~~ the value of $LMOD_t$ is derived in accordance with the following formula:

$$LMOD_t = MOD_t \times RPIF_t$$

where:

- MOD_t 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 Handbook; and
- $RPIF_t$ has the value of $RPIF_t$ 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.

- 7.3.4 For Regulatory Years commencing on 1 April 2023, 1 April 2024 and 1 April 2025 the value of $LMOD_t$ is derived in accordance with the following formula:

$$LMOD_t = COA \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

- COA means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 8 (Legacy) of the GT2 Price Control Financial Handbook;
- $CWACC_t$ means compound WACC and has the value derived in accordance with Part B;
- PI_t has the value given to it by Part F of Special Condition 2.1; and
- $PI_{2018/19}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2018.

7.3.47.3.5 Before making a direction under paragraphs 7.3.3 and 7.3.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Part B: Compound WACC

7.3.6 For the Regulatory Year commencing on 1 April 2021, $CWACC_t$ has the value of 1.

7.3.7 For Regulatory Years commencing on or after 1 April 2022, $CWACC_t$ is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the GT2 Price Control Financial Handbook.

Special Condition 7.5 Transportation owner legacy TRU term ($LTRU_t$)

Introduction

7.5.1 The purpose of this condition is to calculate the term $LTRU_t$ (the transportation owner legacy TRU term). This contributes to the calculation of the term LAR_t (the transportation owner legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Transportation owner revenue restriction).

7.5.2 The effect of this condition is to close out the RIIO-GT1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects TRU adjustments relating to Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

Part A: Formula for calculating the transportation owner legacy TRU term ($LTRU_t$)

7.5.3 For the Regulatory Years commencing on 1 April 2021 to 1 April ~~2024~~2022, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = TRU_t \cdot RPIF_t$$

where:

TRU_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; 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.

7.5.4 For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = \left[\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot REV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

$RPIA_t$ has the value given to it by Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021;

$RPIF_t$ 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.

REV_{t-2} has the value of REV_{t-2} 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. For this calculation the component PU (opening base demand revenue allowance) is zero.

$LPVF_t$ has the value derived in accordance with paragraph 7.5.5.

PI_t has the value given to it by Part F of Special Condition 2.1; and

$PI_{2009/10}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2009.

7.5.5 The value of $LPVF_t$ is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the GT2 Price Control Financial Handbook.

7.5.47.5.6 The value of $LTRU_t$ for Regulatory Years commencing on or after 1 April 2025 is zero.

Special Condition 7.9 Legacy net RAV additions (LRAV_t)

Introduction

- 7.9.1 This condition explains the process the Authority will follow when directing values for the term LRAV_t (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPN_t (the depreciation term as calculated by the GT2 Price Control Financial Model), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Transportation owner revenue restriction).
- 7.9.2 The effect is to reflect the close out of the RIIO-GT1 Price Control Financial Model, in respect of legacy net RAV additions.

Part A: Authority assessment and direction

- 7.9.3 The Authority will direct revisions to LRAV_t, coinciding with the Annual Iteration Process [and following implementation of closeout methodologies set out in the GT2 Price Control Financial Handbook](#).
- 7.9.4 Before making a direction under paragraph 7.9.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
 - (b) the reasons for the proposed direction; and
 - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Special Condition 7.11 System operator legacy MOD (SOLMOD_t)

Introduction

- 7.11.1 The purpose of this condition is to set out the process the Authority will follow when directing values for the term SOLMOD_t (the system operator legacy MOD term). This contributes to the calculation of the term SOLAR_t (the system operator legacy adjustments term), which in turn feeds into the SO Allowed Revenue in Special Condition 2.3 (System operator revenue restriction).
- 7.11.2 The effect of this condition is to reflect the close out of the GT1 Price Control Financial Model.

Part A: Authority Assessment and direction

- 7.11.3 [For Regulatory Years commencing on 1 April 2021 and 1 April 2022](#)† the value of SOLMOD_t is derived in accordance with the following formula:

$$SOLMOD_t = SOMOD_t \times RPIF_t$$

where:

$SOMOD_t$ 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 Handbook; and

$RPIF_t$ has the value of $RPIF_t$ 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.

7.11.4 For Regulatory Years commencing on 1 April 2023, 1 April 2024 and 1 April 2025, the value of $SOLMOD_t$ is derived in accordance with the following formula:

$$SOLMOD_t = SOCOA \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

$SOCOA$ means the System Operator closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 8 (Legacy) of the GT2 Price Control Financial Handbook;

$CWACC_t$ means compound WACC and has the value derived in accordance with Part B of Special Condition 7.3 (Transportation owner legacy MOD);

PI_t has the value given to it by Part F of Special Condition 2.1; and

$PI_{2018/19}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2018.

~~7.11.4~~7.11.5 Before making a direction under paragraphs 7.11.3 and 7.11.4 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Special Condition 7.13 System operator legacy TRU term (SOLTRU_t)

Introduction

7.13.1 The purpose of this condition is to calculate the term $SOLTRU_t$ (the system operator legacy TRU term). This contributes to the calculation of the term $SOLAR_t$ (the system operator legacy adjustments term), which in turn feeds into the SO Allowed Revenue in Special Condition 2.3 (System operator revenue restriction).

7.13.2 The effect of this condition is to close out the RIIO-GT1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024

reflects SOTRU adjustments relating to the Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

Part A: Formula for calculating the system operator legacy TRU term (SOLTRU_t)

7.13.3 For the Regulatory Years commencing on 1 April 2021 to 1 April ~~2024~~2022, the value of LTRU_t is derived in accordance with the following formula:

$$SOLTRU_t = SOTRU_t \cdot RPIF_t$$

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 has the value of RPIF_t as determined 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.

7.13.4 For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of SOLTRU_t is derived in accordance with the following formula:

$$SOLTRU_t = \left[\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot SOREV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

RPIA_t has the value given to it by Part C of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence as in force on 31 March 2021;

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.

SOREV_{t-2} has the value of SOREV_{t-2} as determined in accordance with Part D of Special Condition 3A (NTS System Operation – Revenue Restriction) of this licence as in force on 31 March 2021. For this calculation the component PU (opening base demand revenue allowance) is zero.

LPVF_t has the value derived in accordance with paragraph 7.13.5.

PI_t has the value given to it by Part F of Special Condition 2.1; and

PI_{2009/10} has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2009.

7.13.5 The value of LPVF_t is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

WACC_t means vanilla weighted average cost of capital, derived in accordance with the GT2 Price Control Financial Handbook.

~~7.13.4~~7.13.6 The value of SOLTRU_t for Regulatory Years commencing on or after 1 April 2025 is zero.

Special Condition 7.17 System operator legacy net RAV additions (SOLRAV_t)

Introduction

- 7.17.1 This condition explains the process the Authority will follow when directing values for the term SOLRAV_t (the SO legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term SODPN_t (the SO depreciation term as calculated by the GT2 Price Control Financial Model), which in turn feeds into the SO Calculated Revenue in Special Condition 2.3 (System operator revenue restriction).
- 7.17.2 The effect is to reflect the close out of the RIIO-GT1 Price Control Financial Model in respect of SO legacy net RAV additions.

Part A: Authority assessment and direction

- 7.17.3 The Authority will direct revisions to SOLRAV_t, coinciding with the Annual Iteration Process and following implementation of closeout methodologies set out in the GT2 Price Control Financial Handbook.
- 7.17.4 Before making a direction under paragraph 7.17.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
 - (b) the reasons for the proposed direction; and
 - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Schedule 1 (Part B) - RIIIO-GT2 Price Control Financial Handbook

Table 3.1 - PCFM Variable Values (VV) for TO

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances			
NARM _t	Baseline Network Risk Output	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
NARMAH	NARM Asset Health Re-opener	SpC 3.1	PCFM Guidance, Re-opener Guidance and Application Requirements
CROT _t	Cybe resilience OT Baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROTRE _t	Cyber resilience OT non-baseline	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
CRIT _t	Cyber resilience IT Baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE _t	Cyber resilience IT non-baseline	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUP _t	Physical Security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PSUPRE _t	Physical Security Price Control Deliverable - Re-Opener Element	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
RDF _t	Net zero and re-opener development UIOLI	SpC 3.5	PCFM Guidance
NZ _t	Net Zero Re-Opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE _t	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM _t	Coordinated Adjustment Mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements
NZP _t	Net zero Pre-construction Work and Small Net Zero Projects Re-opener	SpC 3.9	PCFM Guidance, Net Zero Pre-construction Work and Small Net Zero projects Re-opener Governance Document
BTR _t	Bacton terminal site redevelopment Price Control Deliverable	SpC 3.10	PCFM Guidance, PCD Reporting Requirements and Methodology Document

VV	Description	SpC	Cross-reference / Associated Document
BTR _t	Bacton terminal site redevelopment Price Control Deliverable - Re-Opener Element	SpC 3.10	PCFM Guidance, Re-opener Guidance and Application Requirements
CEP _t	Compressor Emissions Price Control Deliverable	SpC 3.11	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CEPRE _t	Compressor Emissions Price Control Deliverable - Re-Opener Element	SpC 3.11	PCFM Guidance, Re-opener Guidance and Application Requirements
KLS _t	King's Lynn subsidence Price Control Deliverable	SpC 3.12	PCFM Guidance, PCD Reporting Requirements and Methodology Document
KLSRE _t	King's Lynn subsidence Price Control Deliverable - Re-Opener Element	SpC 3.12	PCFM Guidance, Re-opener Guidance and Application Requirements
FIOC _t	Funded Incremental Obligated Capacity Price Control Deliverable	SpC 3.13	PCFM Guidance, Guidance on the Incremental Obligated Capacity Re-opener
FIOCRE _t	Funded Incremental Obligated Capacity Price Control Deliverable - Re-Opener Element	SpC 3.13	PCFM Guidance, Re-opener Guidance and Application Requirements, Guidance on the Incremental Obligated Capacity Re-opener
AH _t	Asset health Re-Opener	SpC 3.14	PCFM Guidance, Re-opener Guidance and Application Requirements
NLA _t	Asset Health - Non Lead Assets Price Control Deliverable	SpC 3.15	PCFM Guidance, PCD Reporting Requirements and Methodology Document
NLAAH _t	Asset Health - Non Lead Assets Reopener	SpC 3.15	PCFM Guidance, Re-opener Guidance and Application Requirements
RA _t	Redundant assets Price Control Deliverable	SpC 3.16	PCFM Guidance, PCD Reporting Requirements and Methodology Document
QL _t and PD _t	Uncertain Costs Re-opener	SpC 3.17	PCFM Guidance, Re-opener Guidance and Application Requirements
OE _t	Opex Escalator	SpC 3.18	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
Actual Totex			
Capitalisation rate 1:			
ALC	Actual load related capex expenditure		PCFM Guidance
ARC	Actual asset replacement capex expenditure		PCFM Guidance
AOC	Actual other capex expenditure		PCFM Guidance
ACO	Actual non-load (opex)		PCFM Guidance
AIO	Actual indirects (opex)		PCFM Guidance
ANC	Actual non-operational capex		PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex expenditure		PCFM Guidance
ARCU	Actual asset replacement capex expenditure		PCFM Guidance
AOCU	Actual other capex expenditure		PCFM Guidance
ACOU	Actual non-load (opex)		PCFM Guidance
AIOU	Actual indirects (opex)		PCFM Guidance
ANCU	Actual non-operational capex		PCFM Guidance
Pass-through expenditure			
RB _t	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
LF _t	Licence Fees	SpC 6.1, Part A	PCFM Guidance
EDE _t	Pension deficit charge	SpC 6.1, Part A	PCFM Guidance
OPTC _t	Secretary of State in respect of Policing Costs	SpC 6.1, Part A	PCFM Guidance
IS _t	Gas conveyed to Independent Systems (SIU)	SpC 6.2	PCFM Guidance
PTV _t	PARCA Termination Value	SpC 6.1, Part D	PCFM Guidance
Hy _t	Hy-Net	SpC 6.1, Part E	PCFM Guidance
NZPSt	Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	SpC 6.1, Part F	PCFM Guidance
Incentive Revenue			
CSI _t	Customer satisfaction incentive	SpC 4.2	PCFM Guidance
ESI _t	Environmental scorecard output delivery incentive	SpC 4.3	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
Other Revenue Allowances			
NIA _t	RIIO-2 Network Innovation Allowance	SpC 5.2	PCFM Guidance, RIIO-2 NIA Governance Document
CNIA _t	Carry-over RIIO-1 Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
SIFF _t	The Strategic Innovation Fund	SpC 5.7	SIF Governance Document, PCFM Guidance
Legacy Adjustments			
LPT _t	Legacy pass-through	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD _t	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK _t	Legacy K Correction	SpC 7.4	PCFH section 8, PCFM Guidance
LTRU _t	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance
NOCO _t	Close out of the RIIO-GT1 network outputs	SpC 7.6	PCFH section 8, PCFM Guidance
NICF _t	RIIO-1 network innovation competition	SpC 7.7	PCFH section 8, PCFM Guidance
SSCO _t	Close out of the RIIO-GT1 stakeholder satisfaction output	SpC 7.8	PCFH section 8, PCFM Guidance
LRAV _t	RIIO-1 net RAV additions (after disposals)	SpC 7.9	PCFH section 8, PCFM Guidance
<u>COA</u>	<u>Closeout adjustment</u>	<u>SpC 7.3</u>	<u>PCFH section 8, PCFM Guidance</u>
<u>REV_t</u>	<u>Revenue for TRU term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
<u>RPIF_t</u>	<u>RIIO-1 RPI forecast term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
Directly Remunerated Services			
DRSR _t	Directly remunerated services revenue	SpC 9.7	PCFM Guidance
DRSC _t	Directly remunerated services cost	SpC 9.7	PCFM Guidance
Finance Inputs			
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
iBTA _t	iBoxx trailing average		PCFH section 4, PCFM Guidance
I _j	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
RPE _t	RPE annual growth		PCFM Guidance
AND _t	Adjusted net debt		PCFM Guidance
TDNI _t	Tax deductible net interest cost		PCFM Guidance
TAXA _t	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance
TTE _t	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
OGPA _t	General pool opening balance adjustment		PCFM Guidance
OSRPA _t	Special Rate pool opening balance adjustment		PCFM Guidance
OGP _t	General pool capital allowance opening balance brought forward		PCFM Guidance
OSRP _t	Special Rate capital allowance opening balance brought forward		PCFM Guidance
OSBP _t	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
ODRP _t	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
LODRP _t	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL _t	Tax loss brought forward		PCFM Guidance
ARGP _t	Totex allocation to "General" tax pool		PCFM Guidance
ARSR _t	Totex allocation to "Special Rate" tax pool		PCFM Guidance
ARSB _t	Totex allocation to "Structures and Buildings" tax pool		PCFM Guidance
ARDR _t	Totex allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARR _t	Totex allocation to "Revenue" tax pool		PCFM Guidance
ARNQ _t	Totex allocation to "Non Qualifying" tax pool		PCFM Guidance
CT _t	Corporation tax rate		PCFM Guidance
GCA _t	General pool capital allowance rate		PCFM Guidance
SRCA _t	Special Rates capital allowance rate		PCFM Guidance
SBCA _t	Structures and buildings capital allowance rate		PCFM Guidance
DRCA _t	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1 AR _t	RIIO-1 allowed revenue		PCFM Guidance
PRP _t	Penal rate proportion	SpC 2.1 Part H	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
BRR _t	Recovered revenue billed basis		PCFM Guidance
BD _t	Bad debt		PCFM Guidance
RR _t	Recovered revenue	SpC 2.1, Part B	PCFM Guidance

Table 3.2 - PCFM Variable Values (VV) for SO

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances			
CROT _t	Cyber resilience OT Baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROTRE _t	Cyber resilience OT non-baseline	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
CRIT _t	Cyber resilience IT Baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE _t	Cyber resilience IT non-baseline	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
NZ _t	Net Zero Re-Opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE _t	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
FIOC _t	Funded Incremental Obligated Capacity Price Control Deliverable	SpC 3.13	PCFM Guidance, Guidance on the Incremental Obligated Capacity Re-opener
FIOCRE _t	Funded Incremental Obligated Capacity Price Control Deliverable - Re-Opener Element	SpC 3.13	PCFM Guidance, Re-opener Guidance and Application Requirements, Guidance on the Incremental Obligated Capacity Re-opener

VV	Description	SpC	Cross-reference / Associated Document
Actual Totex			
SOANC	Actual non-operational capex		PCFM Guidance
SOACO	Actual controllable opex		PCFM Guidance
Pass-through expenditure			
SOEDE _t	Pension Scheme Established Deficit		PCFM Guidance, PCFH Section 7
CDSP _t	CDSP Costs, excluding costs incurred in relation to UK Link Gemini	SpC 6.3, Part A	PCFM Guidance
Other Revenue			
CMIR _t	Constraint management incentive revenue	SpC 5.5, Part B	PCFM Guidance
RAREnCA _t	Revenue from accelerated release of incr. obl. entry capacity	SpC 5.5, Part A	PCFM Guidance
ExBBCNLRA _t	Exit capacity buyback cost which users are liable to reimburse	SpC 5.5, Part A	PCFM Guidance
RBC _t	Revenue for net residual balancing costs	SpC 5.6, Part A	PCFM Guidance
OMC _t	Total costs for procurement of operating margin services	SpC 5.6, Part A	PCFM Guidance
SC _t	System costs	SpC 5.6, Part A	PCFM Guidance
RBIR _t	Residual balancing incentive	SpC 5.6, Part B	PCFM Guidance
QDAIR _t	Quality of demand forecasting incentive revenue	SpC 5.6, Part C	PCFM Guidance
GHGIR _t	Green house gas emissions incentive	SpC 5.6, Part D	PCFM Guidance
MIR _t	Maintenance incentive	SpC 5.6, Part F	PCFM Guidance
Legacy Adjustments			
SOLMOD _t	System Operator legacy MOD	SpC 7.11	PCFH section 8, PCFM Guidance
SOLK _t	System Operator legacy K correction	SpC 7.12	PCFH section 8, PCFM Guidance
SOLTRU _t	System Operator legacy TRU term	SpC 7.13	PCFH section 8, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
LCMIR _t	Close out of the RIIO-GT1 entry and exit capacity constraint management incentive	SoC 7.14	PCFH section 8, PCFM Guidance
LCMCA _t	Close out of the RIIO-GT1 constraint management cost adjustment	SpC 7.15	PCFH section 8, PCFM Guidance
LTSS _t	Close out of the RIIO-GT1 NTS transportation support services cost adjustment	SpC 7.16	PCFH section 8, PCFM Guidance
SOLRAV _t	RIIO-1 net RAV additions (after disposals)	SpC 7.17	PCFH section 8, PCFM Guidance
<u>SOCOA</u>	<u>System operator closeout adjustment</u>	<u>SpC 7.11</u>	<u>PCFH section 8, PCFM Guidance</u>
<u>SOREVt</u>	<u>Revenue for the SOTRU term</u>	<u>SpC 7.13</u>	<u>PCFM Guidance</u>
Finance Inputs			
SORFR	Risk-free rate		PCFH section 4, PCFM Guidance
iBTA _t	iBoxx trailing average		PCFH section 4, PCFM Guidance
I _t	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE _t	RPE _t indexation		PCFM Guidance
AND _t	Adjusted net debt		PCFM Guidance
TDNI _t	Tax deductible net interest cost		PCFM Guidance
SOTAXA _t	Tax allowance adjustment	SpC 2.4	PCFH section 6, PCFM Guidance
SOTTE _t	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
SOOGPA _t	General pool opening balance adjustment		PCFM Guidance
SOOSRPA _t	Special Rate pool opening balance adjustment		PCFM Guidance
SOOGP _t	General pool capital allowance opening balance brought forward		PCFM Guidance
SOOSRP _t	Special Rate capital allowance opening balance brought forward		PCFM Guidance
SOOSBP _t	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
SOODRP _t	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
SOLODRP _t	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
SOOTL _t	Tax loss brought forward		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
SOARGP _t	Allocation to "General" tax pool		PCFM Guidance
SOARSR _t	Allocation to "Special Rate" tax pool		PCFM Guidance
SOARR _t	Totex allocation to "Revenue" tax pool		
SOARSB _t	Allocation to "Structures and Buildings" tax pool		PCFM Guidance
SOARDR _t	Totex allocation to "Deferred revenue" tax pool		PCFM Guidance
SOARNQ _t	Allocation to "Non Qualifying" tax pool		PCFM Guidance
SOCT _t	Corporation tax rate		PCFM Guidance
SOGCA _t	General pool allowance rate		PCFM Guidance
SOSRCA _t	Special Rate allowance rate		PCFM Guidance
SOSBCA _t	Structures and buildings allowance rate		PCFM Guidance
SODRCA _t	Deferred revenue expenditure allowance rate		PCFM Guidance
RIIO-1 SOAR _t	RIIO-1 allowed revenue		
SOPRP _t	Penal rate proportion	SpC 2.3 Part G	
BSORR _t	Recovered revenue billed basis		PCFM Guidance
SOBD _t	System Operator Bad Debt		PCFM Guidance
SORR _t	Recovered revenue	SpC 2.3, Part B	PCFM Guidance
Totex variant allowances allocation percentages			
TVAAt	The range of totex variant allowance allocation percentages relating to any re-opener or uncertainty mechanism, which have not been pre-populated in the RIIO-GT2 PCFM as a "yellow box" hard-coded input.		PCFM Guidance

8. Legacy Adjustments

Overview⁵²

8.1. This section of the handbook provides an overview of the legacy price control adjustments, which are necessary to take account of:

- a) activities carried out by the licensee;
- b) incentivised performance by the licensee; and / or
- c) costs or expenditure incurred by the licensee,

relating to Regulatory Years prior to Regulatory Year 2021/22 (the “legacy period”).

8.2. Legacy price control adjustments may be necessary where it was not possible to finalise values used in the calculation of the licensee’s price control revenue at final determinations, because of the non-availability of outturn data and other relevant information. Adjustments may also be necessary to correct anomalous positions, acknowledged by Ofgem and the licensee.

8.3. Legacy price control adjustments are divided into two categories, listed below:

- a) Legacy Adjustments to Revenue allowances - LAR_t ⁵³; and
- b) Legacy Adjustments to RIIO-1 RAV additions – $LRAV_t$

8.4. The variable values LAR_t ⁵⁴ and $LRAV_t$ give effect to legacy adjustments and represent respectively:

- a) the net incremental changes (which may be positive or negative) to RIIO-2 revenue allowances; and
- b) the RIIO-1 Net RAV additions relating to the RIIO-1 Price Control Period.

⁵² In this chapter, references to LAR_t , $LMOD_t$ and $LRAV_t$ include references to $SOLAR_t$, $LSOMOD_t$ and $SOLRAV_t$ respectively.

⁵³ The calculation for LAR_t and $SOLAR_t$ is addressed in Special Condition 7.1 and 7.10 respectively.

⁵⁴ Note the LAR_t term is a licence term, the sub-components of which are PCFM Variable Values and can be seen in the calculation in Special Condition 7.1, in the PCFM Variable Values table in Chapter 6 of this handbook and on the GT2 PCFM input sheet. The LAR_t term is an aggregation of these PCFM Variable Values and is not a PCFM Variable Value itself, however for ease of reference we refer to both the LAR_t and the $LRAV_t$ terms as variable values throughout this chapter.

8.5. Revisions to LAR_t and $LRAV_t$ affect the calculation of Allowed Revenue for the licensee, through the AIP, in the following ways:

- a) adjustments to revenue allowances (LAR_t) flow directly into Allowed Revenue as fast money amounts
- b) adjustments to the RIIO-1 Net RAV additions ($LRAV_t$) flow into Calculated Revenue (R_t and SOR_t) indirectly, by giving rise to adjusted return on RAV and depreciation amounts.

8.6. It should be noted, however, that revisions to LAR_t and $LRAV_t$ values will also have ancillary effects on other calculations which feed into Allowed Revenue, under the AIP.

8.7. The revised LAR_t value and its component values are denoted in nominal terms. $LRAV_t$ values will be denoted in 2018/19 prices, consistent with the price base used in the RIIO-GT2 PCFM.

8.8. On 1 April 2021, the LAR_t and $LRAV_t$ variable values will be provisional. These values will have been determined using forecast data at the time of final determinations for RIIO-GT2 and therefore will be adjusted when outturn data becomes available.

Revision to Legacy Adjustments

8.9. The Legacy PCFM Variable Values will be revised⁵⁵ as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed through the Close-out of the RIIO-1 price control, as part of the first two AIPs during the RIIO-2 Price Control Period.

8.10. Where applicable, Ofgem will use forecasts to determine a provisional value for legacy adjustments, which will be updated in subsequent AIPs when the outturn data becomes available.

⁵⁵ Except for $LMOD_{2021-2022}$, which will not change in the RIIO-GT2 PCFM after it has been set for the Regulatory Year 2020/21.

8.11. It might be necessary for a legacy outturn value to be restated by the licensee or adjusted by Ofgem after it has been applied to the determination of a component term value because of:

- errors or omissions in the preparation of information or inconsistencies with the relevant Regulatory Instructions and Guidance (RIGs) or
- an efficiency review by Ofgem.

8.12. In either of those circumstances, the restated/adjusted legacy outturn value would be applied in place of the original value in a subsequent determination of legacy term values, and reflected in a revision to the relevant PCFM Variable Value for the next AIP.

Legacy Adjustment to Revenue – (LAR_t and SOLAR_t)

8.13. LAR_t and SOLAR_t are derived in accordance with the formula in Part A of Special Condition 7.1 and Part A of Special Condition 7.10 respectively, that comprise several legacy adjustments (see Table 8.1 and Table 8.2). These legacy adjustments are determined in accordance with the methodologies set out in Chapter 7 of the special conditions.

Table 8.1 – Legacy Adjustments (LAR_t)

LAR _t Components	Description	SpC
LPT _t	Transportation Owner legacy pass-through	SpC 7.2
LMOD _t	Transportation Owner legacy MOD	SpC 7.3
LK _t	Transportation Owner legacy K correction	SpC 7.4
LTRU _t	Transportation Owner legacy TRU term	SpC 7.5
NOCO _t	Close out of the RIIO-1 Network Outputs	SpC 7.6
NICF _t	RIIO-GT1 Network Innovation Competition	SpC 7.7
SSCO _t	Close out of the RIIO-GT1 Stakeholder Satisfaction Output	SpC 7.8

Table 8.2 – Legacy Adjustments (SOLAR_t)

SOLAR_t Components	Description	SpC
SOLMOD _t	System Operator legacy MOD	SpC 7.11
SOLK _t	System Operator legacy K correction	SpC 7.12
SOLTRU _t	System Operator legacy TRU term	SpC 7.13
LCMIR _t	Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue	SpC 7.14
LMCMA _t	Close out of the RIIO-GT1 Constraint Management Cost Adjustment	SpC 7.15
LTSS _t	Close out of the RIIO-GT1 NTS Transportation Support Services adjustment	SpC 7.16

8.14. Where a methodology for the calculation of a component of LAR_t refers to a calculation as set out in the RIIO-GT1 special licence conditions in force on 31 March 2021, this should be done with the exception of the Retail Prices Index Forecast Growth Rate calculation, the definition of which refers to “the HM Treasury “Forecasts for the UK Economy” publication, published in November each year.”

8.15. Instead, from 01 April 2021, the Retail Prices Index Forecast Growth Rate should be calculated with reference to the August publication of the HM Treasury Forecasts for the UK Economy publication as the calculation will need to be done in time to feed the LAR_t variable value into the November AIP before the cut-off date set out in Chapter 2 of this handbook.

8.16. For this version of the handbook, further detail is only provided for LMOD_t (Special Condition 7.3) and SOLMOD_t (Special Condition 7.11), component terms for LAR_t and SOLAR_t respectively

Legacy MOD (LMOD_t and SOLMOD_t)

8.17. The Legacy MOD (LMOD_t and SOLMOD_t) values represent an amount (either positive or negative) to be added to licensee’s Allowed Revenue, which relate to the Regulatory Years prior to the current Price Control Period.

[LMOD and SOLMOD values for the first two years of RIIO-GT2](#)

8.18. Ofgem will take the last published RIIO-GT1 PCFM (the RIIO-GT1 Price Control Financial Model following the AIP 2019 and extend the calculations to output a MOD_t value for Regulatory Years following the conclusion of RIIO-GT1. This extended version of the last published RIIO-GT1 PCFM will be referred to as the Legacy RIIO-GT1 PCFM.

8.19. As with the RIIO-1 process, a new MOD_t (eg $MOD_{2021/22}$ and $MOD_{2022/23}$) will be calculated and directed at each AIP, reflecting any changes related to the RIIO-1 variable values or from the closeout process.

8.20. As in the RIIO-1 process, the PCFM Variable Values feeding into the Legacy RIIO-GT1 PCFM are to be derived in accordance with Chapter 5 (Annual Iteration Process - Adjustments to the NTS Transportation owner Revenue Restriction and the creation of zero baseline capacity entry and exit points) and Chapter 6 (Annual Iteration Process - Adjustments to the NTS System Operation Revenue Restriction) of the Gas Transporter Licence special conditions and the version of the RIIO-GT1 Price Control Financial Handbook as in force on 31 March 2021.

8.21. These MOD_t values will be denoted in £m 09/10 prices, and then inflated by the RPIFt term consistent with the RIIO-1 methodology and regulatory reporting packs. This nominal MOD is used as the value of $LMOD_t$, and is added directly to Allowed Revenue in the RIIO-2 period.

8.22. The RIIO-GT2 PCFM, in its state as at 1 April 2021 includes values for $LMOD_{2021/22}$ and $LMOD_{2022/23}$ (forecast), which are determined based on the calculations and formulae in the Legacy RIIO-GT1 PCFM and the data available at Final Determinations.

8.23. The value for $LMOD_{2021/22}$ 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.

8.24. In absence of outturn data⁵⁶, a provisional value will be calculated for $LMOD_{2022/23}$, as at 1 April 2021, based on forecast data. This will then be updated at the subsequent AIP in November 2021, following the submission of outturn expenditure data on 31 July 2021.

⁵⁶ There is a two-year lag in reflecting outturn data in Allowed Revenue i.e. outturn data relating to expenditure in Regulatory Year 2020/21 cannot be reflected until after the AIP in 2021 for the Regulatory Year 2022/23.

~~8.25.~~ If necessary, such as due to a close-out methodology, there will be subsequent $LMOD_t$ values directed at the corresponding AIPs, calculated using the same methodology.

~~8.26.~~ 8.25. To calculate the value of LMOD in Regulatory Years 2021/22 or beyond, PVF terms for Regulatory Years within RIIO-2 is required to make the appropriate time value of money adjustment.

~~8.27.~~ 8.26. The PVF term will be the real rate that, when inflated by the corresponding RPI factor (RPIF), implies the same *nominal* time value of money (TVM_t) used in the RIIO-2 Price Control Financial model for that Regulatory Year.

8.27. For example, if the RIIO-2 term TVM_t has a value of 4.55%, a value of PVF will be used such that when inflated by RPI, the nominal rate is also 4.55%.

LMOD and SOLMOD values to reflect the closeout of RIIO-GT1

8.28. Ofgem will take the Legacy RIIO-GT1 PCFM₇ and modify it to calculate a closeout adjustment value (COA and SOCOA) using the same approach as the MOD calculation, applying the same time value of money as would apply to MOD_t in 2021/22.

8.29. The value of LMOD_t for 2023/24 is derived in accordance with Special Condition 7.3, based on a value of COA and SOCOA (the closeout adjustments) that the Authority will direct.

8.30. In order to direct the value of COA and SOCOA, the Authority will follow the following process:

- Coordinate adjustments to the legacy PCFM in accordance with the closeout methodologies listed in paragraph 8.32.
- Ensure "31 March 2024" and the relevant licensee are selected on the "UserInterface" tab of the Legacy RIIO-GT1 PCFM
- Run the tax trigger, then switch the model back into licence model
- Calculate a value of COA and SOCOA using the modified Legacy RIIO-GT1 PCFM from paragraph 8.28.
- Direct the value of "COA" (in 18/19 prices) from the "Legacy Summary" tab as the corresponding input to the GT2 PCFM.

8.31. Until the direction of COA, licensees will use their best estimate.

Closeout methodologies

8.32. In order to calculate a value of COA and SOCOA, the following adjustments will be made to the Legacy RIIO-GT1 PCFM company input tabs in accordance with the Decision on the closeout methodologies for RIIO-GT1⁵⁷ (“the decision”):

- Revise Uncertain costs - pipeline diversion costs, row 19 (IAEPD) in accordance with chapter 3 of the closeout methodology decision
- Revise the allowance for South West Quadrant in rows AH265:AO266 in accordance with chapter 4 of the closeout methodology decision
- Revise the enhanced physical security allowance row 18 (IAEEP) in accordance with chapter 5 of the closeout methodology decision
- Revise the allowance for Hatton compressor in row 26 (IAEIE) in accordance with chapter 7 of the closeout methodology decision
- Revise the disposals input (row 211) in accordance with chapter 8 of the closeout methodology decision

Legacy Adjustment to RAV Additions (LRAV_t)

8.33. This section sets out the methodology by which the Authority will determine LRAV_t (Special Condition 7.9 and Special Condition 7.17 for SOLRAV_t) values for the licensee.

LRAV values prior to the closeout of RIIO-GT1

~~8.28~~8.34. The Authority will derive LRAV_t values relating to RIIO-GT1 Price Control Period, at Final Determinations in accordance with the applicable RIIO-GT1 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (RIGs).

~~8.29~~8.35. LRAV_t should be calculated in accordance with the PCFM Guidance. Ofgem will take the last published GT1 PCFM (the RIIO-GT1 Price Control Financial Model following the AIP 2019) and extend the calculations to enable the calculation of a RAV position for the

⁵⁷ Ofgem publication, “Decision on the closeout methodologies for RIIO-GT1”, published 14 April 2022, <https://www.ofgem.gov.uk/sites/default/files/2022-04/Decision%20on%20the%20closeout%20methodologies%20for%20RIIO-GT1.pdf>

final Regulatory Year of RIIO-GT1. Any net additions to RAV balances during this period represent $LRAV_t$ values.

~~8.30~~8.36. The $LRAV_t$ values for Regulatory Year 2020/21 are provisional and will be updated with outturn data received by the AIP ending November 2021.

~~8.31~~8.37. By 31 October 2021, the Authority will derive finalised $LRAV_t$ values for the Regulatory Year 2020/21 for the licensee by inputting actual cost data submitted by 31 July 2021 into the GT1 PCFM and restating them to 2018/19 prices. There may also be subsequent updates to allowances following the 31 July data submission which will be processed in the same way.

~~8.32~~8.38. The $LRAV_t$ values, as determined in para 8.34 and 8.37 are used in the PCFM Variable Values Table as historical additions to RAV (RIIO-1 Net RAV additions (after disposals)) relating to RIIO-GT1 Price Control Period and will flow indirectly into RIIO-GT2 Calculated Revenue (R_t and SOR_t).

~~8.33~~8.39. The $LRAV_t$ values are contained in the Regulatory Year columns for 2013/14 – 2020/21 (RIIO-GT1 Price Control Period) in RIIO-GT2 PCFM.

Directing final values of $LRAV_t$ and tax pool balances following the closeout of RIIO-GT1

8.40. In directing the value of COA and SOCOA in accordance with paragraph 8.30, the Authority will also direct the corresponding values of $LRAV_t$, $SOLRAV_t$, tax pool and tax loss balances from the Legacy RIIO-GT1 PCFM following implementation of the closeout methodologies in paragraph 8.32.

Schedule 2 (Part A) - Gas Distribution Special Conditions

Special Condition 7.3 Legacy MOD ($LMOD_t$)

Introduction

- 7.3.1 The purpose of this condition explains the process the Authority will follow when directing values for the term $LMOD_t$ (the legacy MOD term). This contributes to the calculation of the term LAR_t (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.3.2 The effect of this condition is to reflect the close out of the GD1 Price Control Financial Model.

Part A: Authority Assessment and direction

- 7.3.3 For Regulatory Years commencing on 1 April 2021 and 1 April 2022, ~~The~~ the value of $LMOD_t$, is derived in accordance with the following formula:

$$LMOD_t = MOD_t \cdot RPIF_t$$

where:

- MOD_t has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the GD1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the GD2 Price Control Financial Handbook; and
- $RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

- 7.3.4 For Regulatory Years commencing on 1 April 2023, 1 April 2024, and 1 April 2025, the value of $LMOD_t$ is derived in accordance with the following formula:

$$LMOD_t = \frac{COA}{3} \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

- COA means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 8 (Legacy) of the GD2 Price Control Financial Handbook;
- $CWACC_t$ means compound WACC and has the value derived in accordance with Part B;
- PI_t has the value given to it by Part F of Special Condition 2.1; and
- $PI_{2018/19}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2018.

~~7.3.4~~7.3.5 Before making a direction under paragraphs ~~7.3.3~~ and 7.3.4, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Part B: Compound WACC

7.3.6 For the Regulatory Year commencing on 1 April 2021, $CWACC_t$ has the value of 1.

7.3.7 For Regulatory Years commencing on or after 1 April 2022, $CWACC_t$ is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the GD2 Price Control Financial Handbook.

Special Condition 7.5 Legacy TRU term ($LTRU_t$)

Introduction

7.5.1 The purpose of this condition is to calculate the term $LTRU_t$ (the legacy TRU term). This contributes to the calculation of the term LAR_t (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.5.2 The effect of this condition is to close out the RIIO-GD1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects TRU adjustments relating to inflation forecasts used in the Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

Part A: Formula for calculating the legacy TRU term ($LTRU_t$)

7.5.3 For the Regulatory Years commencing on 1 April 2021 to 1 April ~~2024~~2022, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = TRU_t \cdot RPIF_t$$

where:

TRU_t is equivalent to TRU_t as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the

Distribution Network Transportation Activity) of this licence as in force on 31 March 2021; and

$RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

7.5.4 For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = \left[\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot REV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

$RPIA_t$ has the value given to it by Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021;

$RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

REV_{t-2} has the value of REV_{t-2} as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021. For this calculation the component PU (opening base demand revenue allowance) is zero.

$LPVF_t$ has the value derived in accordance with paragraph 7.5.5.

PI_t has the value given to it by Part F of Special Condition 2.1; and

$PI_{2009/10}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2009.

7.5.5 The value of $LPVF_t$ is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the GD2 Price Control Financial Handbook.

7.5.47.5.6 The value of $LTRU_t$ for Regulatory Years commencing on or after 1 April 2025 is zero.

Special Condition 7.14 Legacy net RAV additions (LRAV_t)

Introduction

- 7.14.1 This condition explains the process the Authority will follow when directing values for the term LRAV_t (the legacy net RAV additions term). This contributes to the calculation of the term DPN_t (the depreciation term as calculated by the GD2 Price Control Financial Model), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 7.14.2 The effect is to reflect the close out of the RIIO-GD1 Price Control Financial Model, in respect of legacy net RAV additions.

Part A: Authority assessment and direction

- 7.14.3 The Authority will direct revisions to LRAV_t, coinciding with the Annual Iteration Process, and following implementation of closeout methodologies set out in the GD2 Price Control Financial Handbook.
- 7.14.4 Before making a direction under paragraph 7.14.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
 - (b) the reasons for the proposed direction; and
 - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Schedule 2 (Part B) - RIIO-GD2 Price Control Financial Handbook

Table 3.1 - PCFM Variable Values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances			
NARM _t	The Baseline Network Risk Outputs	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
CROT _t	Cyber resilience OT Baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROTRE _t	Cyber resilience OT non-baseline	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
CRIT _t	Cyber resilience IT Baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE _t	Cyber resilience IT non-baseline	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUPRE _t	Physical Security Price Control Deliverable - Re-Opener Element	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUP _t	Physical Security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RDF _t	Net zero and re-opener development UIOLI	SpC 3.5	PCFM Guidance Net Zero and Re-opener Development Fund Governance Document
NZ _t	Net Zero Re-opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE _t	Non-operational Capex IT Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM _t	Coordinated Adjustment Mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements
NZP _t	Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	SpC 3.9	PCFM Guidance, Re-opener Guidance and Application Requirements
T1MD _t	Tier 1 Mains decommissioned Price Control Deliverable	SpC 3.10	PCFM Guidance
T1SR _t	Tier 1 Services Repex Price Control Deliverable	SpC 3.11	PCFM Guidance
CAP _t	Capital projects Price Control Deliverables	SpC 3.12	PCFM Guidance, PCD Reporting Requirements

VV	Description	SpC	Cross-reference / Associated Document
			and Methodology Document
OTC _t	Commerical fleet Price Control Deliverable	SpC 3.13	PCFM Guidance
FPA _t	Fuel Poor Network Extension Scheme Volume Driver	SpC 3.14	PCFM Guidance, FPNES Governance Document
CA _t	Domestic Connections volume driver	SpC 3.15	PCFM Guidance
RE _t	Tier 2A Mains and Services Replacement Volume Driver	SpC 3.16	PCFM Guidance
REP _t	HSE policy Re-opener	SpC 3.17	PCFM Guidance, Re-opener Guidance and Application Requirements
STUB _t	Tier 1 Stubs Repex policy Re-opener	SpC 3.18	PCFM Guidance, Re-opener Guidance and Application Requirements
HPRA _t	Heat policy and energy efficiency Re-opener	SpC 3.19	PCFM Guidance, Re-opener Guidance and Application Requirements
DIV _t	Diversions and Loss of Development Claims policy Re-opener	SpC 3.20	PCFM Guidance, Re-opener Guidance and Application Requirements
MOBS _t	Multiple Occupancy Buildings safety Re-opener	SpC 3.21	PCFM Guidance, Re-opener Guidance and Application Requirements
NLLR _t	New Large Load Connections Re-opener	SpC 3.22	PCFM Guidance, Re-opener Guidance and Application Requirements
SMR _t	Smart Metering Roll-out Costs Re-opener	SpC 3.23	PCFM Guidance, Re-opener Guidance and Application Requirements
STW _t	Specified Streetworks Costs Re-opener	SpC 3.24	PCFM Guidance, Re-opener Guidance and Application Requirements
GHR _t	Gas Holder demolitions Price Control Deliverable (WWU/NGN)	SpC 3.25	PCFM Guidance
PWF _t	Personalising welfare facilities Price Control Deliverable (Cadent)	SpC 3.26	PCFM Guidance, PCD Reporting Requirements and Methodology Document
LMP _t	London Medium Pressure Price Control Deliverable (Cadent)	SpC 3.27	PCFM Guidance, PCD Reporting Requirements and Methodology Document
IPR _t	Intermediate Pressure Reconfigurations Price Control Deliverable (SGN)	SpC 3.28	PCFM Guidance

RPM _t	Remote pressure management Price Control Deliverable (SGN)	SpC 3.29	PCFM Guidance, PCD Reporting Requirements and Methodology Document
BMI _t	Biomethane improved access rollout Price Control Deliverable (SGN)	SpC 3.30	PCFM Guidance, PCD Reporting Requirements and Methodology Document
GER _t	Gas escape reduction Price Control Deliverable (SGN)	SpC 3.31	PCFM Guidance, PCD Reporting Requirements and Methodology Document
Actual Totex			
Capitalisation rate 1:			
ALC	Actual load related capex		PCFM Guidance
AOC	Actual other capex		PCFM Guidance
ACO	Actual business support (opex)		PCFM Guidance
ADO	Actual directs (opex)		PCFM Guidance
ARE	Actual replacement expenditure		PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex		PCFM Guidance
AOCU	Actual other capex		PCFM Guidance
ACOU	Actual business support (opex)		PCFM Guidance
ADOU	Actual directs (opex)		PCFM Guidance
AREU	Actual replacement expenditure		PCFM Guidance
Pass-through expenditure			
LF _t	Licence Fees	SpC 6.1, Part A	PCFM Guidance
RB _t	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
PD _t	Pension Deficit Charge Adjustment (NTS Pension Recharge)	SpC 6.1, Part A	PCFM Guidance
TPWI _t	Third party damage and water ingress	SpC 6.1, Part C	PCFM Guidance
CDSP _t	Gas Transporters' share of Xoserve costs	SpC 6.1, Part A	PCFM Guidance
MP _t	Miscellaneous pass-through	SpC 6.1, Part A	PCFM Guidance
TG _t	Gas theft	SpC 6.1, Part A	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
EC _t	NTS Exit costs	SpC 6.1, Part A	PCFM Guidance
SL _t	Shrinkage costs	SpC 6.1, Part D	PCFM Guidance
EDE _t	Established Pension Deficit Recovery Plan Payment	SpC 6.1, Part A	PCFH section 7
SLDZ _t	Other - Stranraer LDZ (SGN Scotland only)	SpC 6.1 Part A	PCFM Guidance
Incentive Revenue			
CS _t	Customer satisfaction Survey ODI	SpC 4.2	PCFM Guidance
CM _t	Complaints metric ODI	SpC 4.3	PCFM Guidance
SM _t	Shrinkage management ODI	SpC 4.4	PCFM Guidance
UIP _t	Unplanned interruption mean duration ODI (NGN, SGN, WWU)	SpC 4.5	PCFM Guidance
UIP _t	Unplanned interruption mean duration ODI (Cadent only)	SpC 4.5	PCFM Guidance
CSW _t	Collaborative streetworks ODI (Cadent, EOE, SGN SO Networks only)	SpC 4.6	PCFM Guidance
Other Revenue Allowances			
NIA _t	RIIO-2 Network Innovation Allowance	SpC 5.2	PCFM Guidance, RIIO-2 NIA Governance Document
CNIA _t	Carry-over Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
VCM _t	Vulnerability and Carbon Monoxide Allowance	SpC 5.4	PCFM Guidance, VMCA Governance Document
SIF _t	The strategic innovation fund	SpC 5.5	PCF Guidance, SIF governance document
Legacy Adjustments			
LPT _t	Legacy pass-through	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD _t	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK _t	Legacy K Correction	SpC 7.4	PCFH section 8, PCFM Guidance
LTRU _t	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance
NOCO _t	Close out of the RIIO-1 Network Outputs	SpC 7.6	PCFH section 8, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
LDRW _t	Close out of the RIIO-GD1 Discretionary Reward Scheme	SpC 7.8	PCFH section 8, PCFM Guidance, Stakeholder Engagement Incentive Guidance
LBM _t	Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive	SpC 7.9	PCFH section 8, PCFM Guidance
LSHR _t	Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment	SpC 7.10	PCFH section 8, PCFM Guidance
LEEI _t	Close out of the RIIO-GD1 Environmental Emissions Incentive	SpC 7.11	PCFH section 8, PCFM Guidance
LFPI _t	Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive	SpC 7.12	PCFH section 8, PCFM Guidance
LE _{xt}	Close out of the RIIO-GD1 Exit Capacity Cost Adjustment	SpC 7.13	PCFH section 8, PCFM Guidance
LRAV _t	Legacy net RAV additions (after disposals)	SpC 7.14	PCFH section 8, PCFM Guidance
LSOLR _t	Legacy supplier of last resort		PCFM Guidance
<u>COA</u>	<u>Closeout adjustment</u>	<u>SpC 7.3</u>	<u>PCFH section 8, PCFM Guidance</u>
<u>REV_t</u>	<u>Revenue for TRU term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
<u>RPIF_t</u>	<u>RIIO-1 RPI forecast term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
Directly Remunerated Services			
PREDRS _t	Pre-vesting directly remunerated services		PCFM Guidance
POSDRS _t	Post-vesting directly remunerated services		PCFM Guidance
OIDRS _t	Other income from directly remunerated services		PCFM Guidance
IDRS _t	Identified directly remunerated services costs		PCFM Guidance
Finance Inputs			
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
iBTA _t	iBoxx trailing average		PCFH section 4, PCFM Guidance
I _t	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE _t	RPE annual growth		PCFM Guidance
AND _t	Adjusted net debt		PCFM Guidance
TDNI _t	Tax deductible net interest cost		PCFM Guidance
TAXA _t	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
TTE _t	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
OGPA _t	General pool opening balance adjustment		PCFM Guidance
OSRPA _t	Special Rate pool opening balance adjustment		PCFM Guidance
OGP _t	General pool capital allowance opening balance brought forward		PCFM Guidance
OSRP _t	Special Rate capital allowance opening balance brought forward		PCFM Guidance
OSBP _t	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
ODRP _t	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
LODRP _t	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL _t	Tax loss brought forward		PCFM Guidance
ARGP _t	Totex Allocation to "General" tax pool		PCFM Guidance
ARSR _t	Totex Allocation to "Special Rate" tax pool		PCFM Guidance
ARSB _t	Totex Allocation to "Structures and Buildings" tax pool		PCFM Guidance
ARDR _t	Totex Allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARR _t	Totex Allocation to "Revenue" tax pool		PCFM Guidance
ARNQ _t	Totex Allocation to "Non Qualifying" tax pool		PCFM Guidance
CT _t	Corporation tax rate		PCFM Guidance
GCA _t	General pool capital allowance rate		PCFM Guidance
SRCA _t	Special Rates capital allowance rate		PCFM Guidance
SBCA _t	Structures and buildings capital allowance rate		PCFM Guidance
DRCA _t	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1AR _t	RIIO-1 allowed revenue		PCFM Guidance
PRP _t	Penal rate proportion	SpC 2.1, Part H	PCFM Guidance
RIIO-1 ExitAR _t	RIIO-1 exit allowed revenue		PCFM Guidance
RIIO-1 SAR _t	RIIO-1 supplier of last resort allowed revenue		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
BRR _t	Recovered revenue billed basis		PCFM Guidance
BD _t	Bad Debt		PCFM Guidance
RR _i	Recovered revenue	SpC 2.1, Part B	PCFM Guidance
ExitRR _t	Exit recovered revenue		PCFM Guidance
SRR _t	Supplier of last resort recovered revenue		PCFM Guidance
Totex variant allowances allocation percentages			
TVAA _t	The range of totex variant allowance allocation percentages relating to any re-opener or uncertainty mechanism, which have not been pre-populated in the RIIO-GD2 PCFM as a “yellow box” hard-coded input.		PCFM Guidance
<u>RAV and assets</u>			
<u>DISP_t</u>	<u>Disposals net sales proceeds</u>		<u>PCFM Guidance</u>

8. Legacy Adjustments

Overview

8.1. This section of the handbook provides an overview of the legacy price control adjustments, which are necessary to take account of:

- a) activities carried out by the licensee;
- b) incentivised performance by the licensee; and / or
- c) costs or expenditure incurred by the licensee,

relating to Regulatory Years prior to Regulatory Year 2021/22 (the “legacy period”).

8.2. Legacy price control adjustments may be necessary where it was not possible to finalise values used in the calculation of the licensee’s price control revenue at final determinations, because of the non-availability of outturn data and other relevant information. Adjustments may also be necessary to correct anomalous positions, acknowledged by Ofgem and the licensee.

8.3. Legacy price control adjustments are divided into two categories, listed below:

- a) Legacy Adjustments to Revenue allowances - LAR_t^{52} ; and
- b) Legacy Adjustments to RIIO-1 RAV additions – $LRAV_t$

8.4. The variable values LAR_t^{53} and $LRAV_t$ give effect to legacy adjustments and represent respectively:

- a) the net incremental changes (which may be positive or negative) to RIIO-2 revenue allowances; and

⁵² The calculation of which is addressed in Special Condition 7.1.

⁵³ Note the LAR_t term is a licence term, the sub-components of which are PCFM Variable Values and can be seen in the calculation in Special Condition 7.1, in the PCFM Variable Values table in Chapter 6 of this handbook and on the GD2 PCFM input sheet. The LAR_t term is an aggregation of these PCFM Variable Values and is not a PCFM Variable Value itself, however for ease of reference we refer to both the LAR_t the $LRAV_t$ terms as variable values throughout this chapter.

b) the RIIO-1 Net RAV additions relating to the RIIO-1 Price Control Period.

8.5. Revisions to LAR_t and $LRAV_t$ affect the calculation of Allowed Revenue for the licensee, through the AIP, in the following ways:

- a) adjustments to revenue allowances (LAR_t) flow directly into Allowed Revenue as fast money amounts
- b) adjustments to the RIIO-1 Net RAV additions ($LRAV_t$) flow into Calculated Revenue (R_t) indirectly, by giving rise to adjusted return on RAV and depreciation amounts.

8.6. It should be noted, however, that revisions to LAR_t and $LRAV_t$ values will also have ancillary effects on other calculations which feed into Allowed Revenue, under the AIP.

8.7. The revised LAR_t value and its component values are denoted in nominal terms. $LRAV_t$ values will be denoted in 2018/19 prices, consistent with the price base used in the RIIO-GD2 PCFM.

8.8. On 1 April 2021, the LAR_t and $LRAV_t$ variable values will be provisional. These values will have been determined using forecast data at the time of final determinations for RIIO-GD2 and therefore will be adjusted when outturn data becomes available.

Revision to Legacy Adjustments

8.9. The Legacy PCFM Variable Values will be revised⁵⁴ as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed through the Close-out of the RIIO-1 price control, as part of the first two AIPs during the RIIO-2 price control period.

⁵⁴ Except for LMOD₂₀₂₁₋₂₀₂₂, which will not change in the RIIO-GD2 PCFM after it has been set for the Regulatory Year 2020/21.

8.10. Where applicable, Ofgem will use forecasts to determine a provisional value for legacy adjustments, which will be updated in subsequent AIPs when the outturn data becomes available.

8.11. It might be necessary for a legacy outturn value to be restated by the licensee or adjusted by Ofgem after it has been applied to the determination of a component term value because of:

- errors or omissions in the preparation of information or inconsistencies with the relevant Regulatory Instructions and Guidance (RIGs) or
- an efficiency review by Ofgem.

8.12. In either of those circumstances, the restated/adjusted legacy outturn value would be applied in place of the original value in a subsequent determination of legacy term values, and reflected in a revision to the relevant PCFM Variable Value for the next AIP.

Legacy Adjustment to Revenue – (LAR_t)

8.13. LAR_t is derived in accordance with the formula in Part B of Special Condition 7.1 and comprises several legacy adjustments (see table 8.1). These legacy adjustments are determined in accordance with the methodologies set out in Chapter 7 of the special conditions.

Table 8.1 – Legacy Adjustments (LAR_t)

LAR_t Components	Description	SpC
LPT_t	Legacy pass-through	SpC 7.2
$LMOD_t$	Legacy MOD	SpC 7.3
LK_t	Legacy K Correction	SpC 7.4
$LTRU_t$	Legacy TRU Term	SpC 7.5
$NOCO_t$	Close out of the RIIO-1 Network Outputs	SpC 7.6
$LDRW_t$	Close out of the RIIO-GD1 Discretionary Reward Scheme	SpC 7.8
LBM_t	Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive	SpC 7.9
$LSHR_t$	Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment	SpC 7.10

LAR_t Components	Description	SpC
LEEI _t	Close out of the RIIO-GD1 Environmental Emissions Incentive revenue	SpC 7.11
LFPI _t	Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism	SpC 7.12
LEx _t	Close out of the RIIO-GD1 Exit Capacity Cost Adjustment	SpC 7.13

8.14. Where a methodology for the calculation of a component of LAR_t refers to a calculation as set out in the RIIO-GD1 special licence conditions in force on 31 March 2021, this should be done with the exception of the Retail Prices Index Forecast Growth Rate calculation, the definition of which refers to “the HM Treasury “Forecasts for the UK Economy” publication, published in November each year.”

8.15. Instead, from 01 April 2021, the Retail Prices Index Forecast Growth Rate should be calculated with reference to the August publication of the HM Treasury Forecasts for the UK Economy publication as the calculation will need to be done in time to feed the LAR_t Variable Value into the November AIP before the cut-off date set out in Chapter 2 of this handbook.

8.16. For this version of the handbook, further detail is only provided for LMOD_t (Special Condition 7.3), a component term for LAR_t.

Legacy MOD (LMOD_t)

8.17. The Legacy MOD (LMOD_t) value represents an amount (either positive or negative) to be added to licensee’s Allowed Revenue, which relate to the Regulatory Years prior to the current Price Control Period.

[LMOD values for the first two years of RIIO-GD2](#)

8.18. Ofgem will take the last published RIIO-GD1 PCFM (the RIIO-GD1 Price Control Financial Model following the AIP 2019) and extend the calculations to output a MOD_t value for Regulatory Years following the conclusion of RIIO-GD1. This extended version of the last published RIIO-GD1 PCFM will be referred to as the Legacy RIIO-GD1 PCFM.

8.19. As with the RIIO-1 process, a new MOD_t (eg $MOD_{2021/22}$ and $MOD_{2022/23}$) will be calculated and directed at each AIP, reflecting any changes related to the RIIO-1 variable values or from the closeout process.

8.20. As in the RIIO-1 process, the PCFM Variable Values feeding into the Legacy RIIO-GD1 PCFM are to be derived in accordance with Chapter 3 (Annual Iteration Process - Adjustments to the Revenue Restriction) of the Gas Transporter Licence special conditions as in force on 31 March 2021.

8.21. These MOD_t values will be denoted in £m 09/10 prices, and then inflated by the $RPIF_t$ term consistent with the RIIO-1 methodology and regulatory reporting packs. This nominal MOD is used as the value of $LMOD_t$ and is added directly to Allowed Revenue in the RIIO-2 period.

8.22. The RIIO-GD2 PCFM, in its state as at 1 April 2021 includes values for $LMOD_{2021/22}$ and $LMOD_{2022/23}$ (forecast), which are determined based on the calculations and formulae in the Legacy RIIO-GD1 PCFM and the data available at Final Determinations.

8.23. The value for $LMOD_{2021/22}$ 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.

8.24. In absence of outturn data⁵⁵, a provisional value will be calculated for $LMOD_{2022/23}$, as at 1 April 2021, based on forecast data. This will then be updated at the subsequent AIP in November 2021, following the submission of outturn expenditure data on 31 July 2021.

~~8.25. If necessary, such as due to a close out methodology, there will be subsequent $LMOD_t$ values directed at the corresponding AIPs, calculated using the same methodology.~~

⁵⁵ There is a two-year lag in reflecting outturn data in Allowed Revenue i.e. outturn data relating to expenditure in Regulatory Year 2020/21 cannot be reflected until after the AIP in 2021 for the Regulatory Year 2022/23.

~~8.26.~~8.25. To calculate the value of LMOD in Regulatory Years 2021/22 or beyond, PVF terms for Regulatory Years within RIIO-2 is required to make the appropriate time value of money adjustment.

8.26. The PVF term will be the real rate that, when inflated by the corresponding RPI factor (RPIF), implies the same *nominal* time value of money (TVM_t) used in the RIIO-2 Price Control Financial model for that Regulatory Year.

8.27. For example, if the RIIO-2 term TVM_t has a value of 4.55%, a value of PVF will be used such that when inflated by RPI, the nominal rate is also 4.55%.

LMOD values to reflect the closeout of RIIO-GD1

8.28. Ofgem will take the Legacy RIIO-GD1 PCFM, and modify it to calculate a closeout adjustment value (COA) using the same approach as the MOD calculation, applying the same time value of money as would apply to MOD_t in 2021/22.

8.29. The value of $LMOD_t$ for 2023/24, 2024/25 and 2025/26 is derived in accordance with Special Condition 7.3, based on a value of COA (the closeout adjustment) that the Authority will direct.

8.30. In order to direct the value of COA, the Authority will follow the following process:

- Coordinate adjustments to the legacy PCFM in accordance with the closeout methodologies listed in paragraph 8.32
- Ensure "31 March 2024" and the relevant licensee are selected on the "UserInterface" tab of the Legacy RIIO-GD1 PCFM
- Run the tax trigger, then switch the model back into licence model
- Calculate a value of COA using the modified Legacy RIIO-GD1 PCFM from paragraph 8.28
- Direct the value of "COA" (in 18/19 prices) from the "Legacy Summary" tab as the corresponding input to the ED2 PCFM.

8.31. Until the direction of COA, licensees will use their best estimate.

Closeout methodologies

8.32. The following adjustments will be made to the Legacy RIIO-GD1 PCFM in order to calculate a value of COA:

- Adjust the Fuel Poor Network Extension Scheme (FPNES) allowance on row 16 of company input tabs (variant allowed load related capex, IAEFP) in accordance with chapter 4 in the Decision on the closeout methodologies for RIIO-GD1⁵⁶
- Adjust the Disposals (pre-vesting and post-vesting) amounts on row 198 of company input tabs, in accordance with chapter 9 of the Decision on the closeout methodologies for RIIO-GD1.
- [WWU Only] Adjust the tax clawback amount on row 24 of the company input tabs (TGIE) in accordance with chapter 8 of the Decision on the closeout methodologies for RIIO-GD1.
- Adjust the iron mains risk reduction program allowance on row 19 (RE, variant repex allowance) in accordance with Chapter 3 of the Decision on the closeout methodologies for RIIO-GD1.

Legacy Adjustment to RAV Additions (LRAV_t)

8.33. This section sets out the methodology by which the Authority will determine LRAV_t (Special Condition 7.14) values for the licensee.

LRAV values prior to the closeout of RIIO-GD1

~~8.27.~~8.34. The Authority will derive LRAV_t values relating to RIIO-GD1 Price Control Period, at Final Determinations in accordance with the applicable RIIO-GD1 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (RIGs).

~~8.28.~~8.35. LRAV_t should be calculated in accordance with the PCFM Guidance. Ofgem will take the last published GD1 PCFM (the RIIO-GD1 Price Control Financial Model following the AIP 2019) and extend the calculations to enable the calculation of a RAV position for the final

⁵⁶ Ofgem, "Decision on the closeout methodologies for RIIO-GD1", 14 April 2022 <https://www.ofgem.gov.uk/sites/default/files/2022-04/Decision%20on%20the%20closeout%20methodologies%20for%20RIIO-GD1.pdf>

Regulatory Year of RIIO-GD1. Any net additions to RAV balances during this period represent $LRAV_t$ values.

~~8.29-8.36.~~ 8.36. The $LRAV_t$ values for Regulatory Year 2020/21 are provisional and will be updated with outturn data received as part of the AIP ending in November 2021.

~~8.30-8.37.~~ 8.37. By 31 October 2021, the Authority will derive finalised $LRAV_t$ values for the Regulatory Year 2020/21 for the licensee by inputting actual cost data submitted by 31 July 2021 into the GD1 PCFM and restating them in 2018/19 prices. There may also be subsequent updates to allowances or other RIIO-1 inputs following the 31 July data submission which will be processed in the same way.

~~8.31-8.38.~~ 8.38. The $LRAV_t$ values, as determined in paras 8.34 - 8.37, are used in the PCFM Variable Values table as historical additions to RAV (RIIO-1 Net RAV additions (after disposals)) relating to RIIO-GD1 Price Control Period and will flow indirectly into RIIO-GD2 Calculated Revenue (R_t).

~~8.32-8.39.~~ 8.39. The $LRAV_t$ values are contained in the Regulatory Year columns for 2013/14 – 2020/21 (RIIO-GD1 Price Control Period) in RIIO-GD2 PCFM.

Directing final values of $LRAV_t$ and tax pool balances following the closeout of RIIO-GD1

8.40. In directing the value of COA in accordance with paragraph 8.30, the Authority will also direct the corresponding values of $LRAV_t$ and tax pool balances from the Legacy RIIO-GD1 PCFM following implementation of the closeout methodologies in paragraph 8.32.

Schedule 3 (Part A) - Electricity Transmission Special Conditions

Special Condition 7.3 Legacy MOD ($LMOD_t$)

Introduction

- 7.3.1 The purpose of this condition is to set out the process the Authority will follow when directing values for the term $LMOD_t$ (the legacy MOD term). This contributes to the calculation of the legacy adjustments term in Special Condition 7.1 (Legacy adjustments to revenue), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.3.2 The effect of this condition is to reflect the close out of the ET1 Price Control Financial Model.

Part A: Authority Assessment and direction

- 7.3.3 For Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of $LMOD_t$ is derived in accordance with the following formula:

$$LMOD_t = MOD_t \cdot RPIF_t$$

where:

- MOD_t has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ET1 Price Control Financial Model, performed in accordance with Chapter 8 (legacy) of the ET2 Price Control Financial Handbook; and
- $RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021.

- 7.3.4 For Regulatory Years commencing on 1 April 2023, 1 April 2024, and 1 April 2025, the value of $LMOD_t$ is derived in accordance with the following formula:

$$LMOD_t = \frac{COA}{3} \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

- COA means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 8 (Legacy) of the ET2 Price Control Financial Handbook;
- $CWACC_t$ means compound WACC and has the value derived in accordance with Part B;
- PI_t has the value given to it by Part F of Special Condition 2.1; and
- $PI_{2018/19}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2018.

- 7.3.47.3.5 Before making a direction under paragraphs 7.3.3 and 7.3.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Part B: Compound WACC

7.3.6 For the Regulatory Year commencing on 1 April 2021, $CWACC_t$ has the value of 1.

7.3.7 For Regulatory Years commencing on or after 1 April 2022, $CWACC_t$ is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the ET2 Price Control Financial Handbook.

Special Condition 7.5 Legacy TRU Term ($LTRU_t$)

Introduction

- 7.5.1 The purpose of this condition is to calculate the term $LTRU_t$ (the legacy TRU term). This contributes to the calculation of the legacy adjustments term in Special Condition 7.1 (Legacy adjustments to revenue), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.5.2 The effect of this condition is to close out the RIIO-ET1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects TRU adjustments relating to inflation forecasts used in the Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

Part A: Formula for calculating the legacy TRU term ($LTRU_t$)

7.5.3 For the Regulatory Years commencing on 1 April 2021 to 1 April ~~2024~~2022, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = TRU_t \cdot RPIF_t$$

where

TRU_t is equivalent to TRU_t as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021; and

$RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021.

7.5.4 For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of $LTRU_t$ is derived in accordance with the following formula:

$$LTRU_t = \left[\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot REV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

$RPIA_t$ has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;

$RPIF_t$ has the value of $RPIF_t$ as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021.

REV_{t-2} has the value of REV_{t-2} as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021. For this calculation the component PU (opening base demand revenue allowance) is zero.

$LPVF_t$ has the value derived in accordance with paragraph 7.5.5

PI_t has the value given to it by Part F of Special Condition 2.1; and

$PI_{2009/10}$ has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2009.

7.5.5 The value of $LPVF_t$ is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

$WACC_t$ means vanilla weighted average cost of capital, derived in accordance with the ET2 Price Control Financial Handbook.

7.5.47.5.6 The value of $LTRU_t$ for Regulatory Years commencing on or after 1 April 2025 is zero.

Special Condition 7.12 Legacy net RAV additions ($LRAV_t$)

Part A: Introduction

7.12.2 This condition explains the process the Authority will follow when directing values for the term $LRAV_t$ (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPN_t (the depreciation term as

calculated by the ET2 Price Control Financial Model), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue restriction).

7.12.3 The effect is to reflect the close out of the RIIO-ET1 Price Control Financial Model, in respect of legacy net RAV additions.

Part B: Authority assessment and direction

7.12.4 The Authority will direct revisions to $LRAV_t$, coinciding with the Annual Iteration Process, and following implementation of closeout methodologies set out in the ET2 Price Control Financial Handbook.

7.12.5 Before making a direction under paragraph 7.12.3 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Schedule 3 (Part B) - ET2 Price Control Financial Handbook

Table 3.1 - PCFM Variable Values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances			
NARM _t	Baseline Network Risk Output	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
CROT _t	Cyber resilience OT Baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROTRE _t	Cyber resilience OT non-baseline	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
CRIT _t	Cyber resilience IT Baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE _t	Cyber resilience IT non-baseline	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUP _t	Physical Security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PSRUPRE _t	Physical Security Re-Opener	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
RDF _t	Net Zero And Re-opener Development Fund use it or lose it allowance	SpC 3.5	PCFM Guidance
NZ _t	Net zero Re-opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE _t	Non-operational IT Capex Reopener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM _t	Coordinated adjustment mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements
WW _t	Wider Works Price Control Deliverable	SpC 3.9	PCFM Guidance
EPI _t	Enhancing Pre-existing Infrastructure Projects allowance	SpC 3.10	PCFM Guidance, PCD Reporting Requirements and Methodology Document
VIMRE _t	Visual Impact Mitigation Re-opener	SpC 3.10	PCFM Guidance, Re-opener Guidance and Application Requirements
GCE _t	Generation Connections volume driver	SpC 3.11	PCFM Guidance
DRI _t	Demand Connections volume driver (SPTL and NGET only)	SpC 3.12	PCFM Guidance
LOTIA _t	Large Onshore Transmission Investment Re-opener Project 1 - Hinckley Sea Bank	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document

VV	Description	SpC	Cross-reference / Associated Document
LOTIRE _t	Large Onshore Transmission Investment Re-opener Project 2 - Shetland	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document
MSIPRE _t	Medium Sized Investment Projects Re-opener	SpC 3.14	PCFM Guidance, Re-opener Guidance and Application Requirements
PCF _t	Pre-Construction Funding Price Control Deliverable	SpC 3.15	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PCFRE _t	Pre-Construction Funding Re-Opener	SpC 3.15	PCFM Guidance, Re-opener Guidance and Application Requirements
ARR _t	Access Reform Change Re-Opener	SpC 3.16	PCFM Guidance, Re-opener Guidance and Application Requirements
SS _t	Shared Schemes Price Control Deliverable (SHET and SPTL only)	SpC 3.17	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RO _t	Resilience and Operability Price Control Deliverable (SHET and SPTL only)	SpC 3.18	PCFM Guidance, PCD Reporting Requirements and Methodology Document
EER _t	Enhanced Environmental Requirements use it or lose it allowance (SPTL only)	SpC 3.19	PCFM Guidance
GRI _t	Generation Related Infrastructure Price Control Deliverable (NGET only)	SpC 3.20	PCFM Guidance, PCD Reporting Requirements and Methodology Document
OTC _t	Operational transport carbon reduction Price Control Deliverable (NGET only)	SpC 3.21	PCFM Guidance
InT _t	Instrument Transformer Price Control Deliverable (NGET only)	SpC 3.22	PCFM Guidance
BA _t	Bay Assets Price Control Deliverable (NGET only)	SpC 3.23	PCFM Guidance
PC _t	Protection and Control Price Control Deliverable (NGET only)	SpC 3.24	PCFM Guidance
OC _t	Overhead Line Conductor Price Control Deliverable (NGET only)	SpC 3.25	PCFM Guidance
SAS _t	Substation Auxiliary Systems use it or lose it allowance (NGET only)	SpC 3.26	PCFM Guidance
SF6 _t	SF6 asset intervention Price Control Deliverable (NGET only)	SpC 3.27	PCFM Guidance
SF6RE _t	SF6 asset intervention Re-opener (NGET only)	SpC 3.27	PCFM Guidance, Re-opener Guidance and Application Requirements
SCR _t	Sub-sea Cable Re-opener (SHET only)	SpC 3.28	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpC	Cross-reference / Associated Document
UNLRE _t	Uncertain non-load related projects Re-opener (SPTL only)	SpC 3.29	PCFM Guidance, Re-opener Guidance and Application Requirements
WWV _t	Wider Works Volume Driver (NGET only)	SpC 3.30	PCFM Guidance
FWR _t	Fibre Wrap Replacement Re-opener (NGET only)	SpC 3.31	PCFM Guidance, Re-opener Guidance and Application Requirements
CWR _t	Civil Related Works Re-opener (NGET only)	SpC 3.32	PCFM Guidance, Re-opener Guidance and Application Requirements
TSF _t	Tower Steelworks and Foundations Re-opener (NGET only)	SpC 3.33	PCFM Guidance, Re-opener Guidance and Application Requirements
TCR _t	Tyne Crossing Project Re-opener (NGET only)	SpC 3.34	PCFM Guidance, Re-opener Guidance and Application Requirements
BRG _t	Bengeworth Road GSP Project Price Control Deliverable. (NGET only)	SpC 3.35	PCFM Guidance, Re-opener Guidance and Application Requirements
OE _t	Opex escalator	SpC 3.36	PCFM Guidance
EECA _t	Entry and Exit Connection Asset Allowance	SpC 3.37	PCFM Guidance
T10A _t	RIIO-ET1/RIIO-ET2 offset adjustment (NGET only)	SpC 3.38	PCFM Guidance
LGCE _t	Legacy Baseline Connections Volume Driver (SHET only)	SpC 3.39	PCFM Guidance
Actual Totex			
Capitalisation rate 1:			
ALC	Actual load related capex expenditure		PCFM Guidance
ARC	Actual asset replacement capex expenditure		PCFM Guidance
AOC	Actual other capex expenditure		PCFM Guidance
ACO	Actual network operating costs (opex)		PCFM Guidance
AIO	Actual Indirects (opex)		PCFM Guidance
ANC	Actual non-operational capex		PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex expenditure		PCFM Guidance
ARCU	Actual asset replacement capex expenditure		PCFM Guidance
AOCU	Actual other capex expenditure		PCFM Guidance
ACOU	Actual network operating costs (opex)		PCFM Guidance
AIOU	Actual Indirects (opex)		PCFM Guidance
ANCU	Actual non-operational capex		PCFM Guidance
Pass-through expenditure			

VV	Description	SpC	Cross-reference / Associated Document
RB _t	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
EDE _t	Pension Scheme Established Deficit Repair	SpC 6.1, Part A	PCFM Guidance
TPD _t	Temporary physical disconnection costs	SpC 6.1, Part A	PCFM Guidance
SHCP _t	Energy Note Supplied Compensatory scheme (SHET only)	SpC 6.2	PCFM Guidance
Incentive Revenue			
ENSI _t	Energy Not Supplied ODI	SpC 4.2	PCFM Guidance
IIGI _t	Insulation and Interruption Gas emissions ODI	SpC 4.3	PCFM Guidance
CONADJ _t	Timely connections ODI	SpC 4.4	PCFM Guidance
QCS _t	Quality of connections satisfaction survey ODI	SpC 4.5	PCFM Guidance
ESI _t	Environmental Scorecard ODI	SpC 4.6	PCFM Guidance
SOTO _t	SO TO Optimisation ODI	SpC 4.7	PCFM Guidance, SO-TO Optimisation Governance
Other Revenue Allowances			
NIA _t	RIIO-2 network innovation allowance	SpC 5.2	PCFM Guidance, RIIO-2 NIA Governance Document
CNIA _t	Carry-over Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
NTMP _t	Non-Technical Mitigation Projects allowance	SpC 5.4	PCFM Guidance
NZF _t	Net Zero Fund use it or lose it allowance (SHET and SPTL only)	SpC 5.5	PCFM Guidance
NZ3C _t	Net zero carbon Capital Construction use it or lose it allowance (NGET only)	SpC 5.6	PCFM Guidance
TIRG _t	Transmission investment for renewable generation (SHET and SPTL only)	SpC 5.6 (SHET) SpC 5.7(SPT)	PCFM Guidance
PRPN _t	Pre-RIIO-1 pension true-up	SpC 5.1	PCFM Guidance
Legacy Adjustments			
LPT _t	Close-out of RIIO-ET1 pass-through items	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD _t	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK _t	Legacy K correction	SpC 7.4	PCFH section 8, PCFM Guidance
LTRU _t	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance
LSSO _t	Close-out of RIIO-ET1 stakeholder satisfaction output	SpC 7.6	PCFH section 8, PCFM Guidance, Stakeholder

VV	Description	SpC	Cross-reference / Associated Document
			Engagement Reward Guidance
LEDR _t	Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment	SpC 7.7	PCFH section 8, PCFM Guidance, Environmental Discretionary Reward Scheme
LSFI _t	Close-out of RIIO-ET1 sulphur hexafluoride gas emissions incentive	SpC 7.8	PCFH section 8, PCFM Guidance
LRI _t	Close-out of RIIO-ET1 energy not supplied reliability incentive	SpC 7.9	PCFH section 8, PCFM Guidance
NOCO _t	Close-out of RIIO-ET1 network outputs	SpC 7.10	PCFH section 8, PCFM Guidance
LRAV _t	RIIO-1 net RAV additions (after disposals)	SpC 7.12	PCFH section 8, PCFM Guidance
<u>COA</u>	<u>Closeout adjustment</u>	<u>SpC 7.3</u>	<u>PCFH section 8, PCFM Guidance</u>
<u>REV_t</u>	<u>Revenue for TRU term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
<u>RPIF_t</u>	<u>RIIO-1 RPI forecast term</u>	<u>SpC 7.5</u>	<u>PCFM Guidance</u>
Directly Remunerated Services			
PREDRS _t	Pre-vesting directly remunerated services		PCFM Guidance
POSDRS _t	Post-vesting directly remunerated services		PCFM Guidance
OIDRS _t	Other income from directly remunerated services		PCFM Guidance
IDRS _t	Identified directly remunerated services costs		PCFM Guidance
Finance Inputs			
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
iBTA _t	iBoxx trailing average		PCFH section 4, PCFM Guidance
iBAFY _t	iBoxx average (Financial Year)		PCFH section 4, PCFM Guidance
iBAAO _t	iBoxx average (April - October)		PCFH section 4, PCFM Guidance
I _t	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE _t	RPE annual growth		PCFM Guidance
AND _t	Adjusted net debt		PCFM Guidance
TDNI _t	Tax deductible net interest cost		PCFM Guidance
TAXA _t	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
TTE _t	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
OGPA _t	General pool opening balance adjustment		PCFM Guidance
OSRPA _t	Special Rate pool opening balance adjustment		PCFM Guidance
OGP _t	General pool capital allowance opening balance brought forward		PCFM Guidance
OSRP _t	Special Rate capital allowance opening balance brought forward		PCFM Guidance
OSBP _t	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
ODRP _t	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
LODRP _t	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL _t	Tax loss brought forward		PCFM Guidance
ARGP _t	Totex allocation to "General" tax pool		PCFM Guidance
ARSR _t	Allocation to "Special Rate" tax pool		PCFM Guidance
ARSB _t	Allocation to "Structures and Buildings" tax pool		PCFM Guidance
ARDR _t	Allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARRe _t	Allocation to "Revenue" tax pool		PCFM Guidance
ARNQ _t	Allocation to "Non-Qualifying" tax pool		PCFM Guidance
CT _t	Corporation tax rate		PCFM Guidance
GCA _t	General pool capital allowance rate		PCFM Guidance
SRCA _t	Special Rates capital allowance rate		PCFM Guidance
SBCA _t	Structures and buildings capital allowance rate		PCFM Guidance
DRCA _t	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1AR _t	RIIO-1 allowed revenue	SpC 2.1	PCFM Guidance
RR _t	Recovered revenue	SpC 2.1, Part B	PCFM Guidance
Totex variant allowances allocation percentages			
TVAAt	The range of totex variant allowance allocation percentages relating to any re-opener or uncertainty mechanism, which		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
	have not been pre-populated in the RIIO-ET2 PCFM as a “yellow box” hard-coded input.		

8. Legacy Adjustments

Overview

8.1. This section of the handbook provides an overview of the legacy price control adjustments, which are necessary to take account of:

- a) activities carried out by the licensee;
- b) incentivised performance by the licensee; and / or
- c) costs or expenditure incurred by the licensee,

relating to Regulatory Years prior to Regulatory Year 2021/22 (the “legacy period”).

8.2. Legacy price control adjustments may be necessary where it was not possible to finalise values used in the calculation of the licensee’s price control revenue at final determinations, because of the non-availability of outturn data and other relevant information. Adjustments may also be necessary to correct anomalous positions, acknowledged by Ofgem and the licensee.

8.3. Legacy price control adjustments are divided into two categories, listed below:

- a) Legacy Adjustments to Revenue allowances - LAR_t^{53} ; and
- b) Legacy Adjustments to RIIO-1 RAV additions – $LRAV_t$

8.4. The variable values LAR_t^{54} and $LRAV_t$ give effect to legacy adjustments and represent respectively:

- a) the net incremental changes (which may be positive or negative) to RIIO-2 revenue allowances; and
- b) the RIIO-1 Net RAV additions relating to the RIIO-1 Price Control Period.

⁵³ The calculation of which is addressed in Special Condition 7.1.

⁵⁴ Note the LAR_t term is a licence term, the sub-components of which are PCFM Variable Values and can be seen in the calculation in Special Condition 7.1, in the PCFM Variable Values table in Chapter 6 of this handbook and on the RIIO-ET2 PCFM input sheet. The LAR_t term is an aggregation of these PCFM Variable Values and is not a PCFM Variable Value itself, however for ease of reference we refer to both the LAR_t the $LRAV_t$ terms as variable values throughout this chapter.

8.5. Revisions to LAR_t and $LRAV_t$ affect the calculation of Allowed Revenue for the licensee, through the AIP, in the following ways:

- a) adjustments to revenue allowances (LAR_t) flow directly into Allowed Revenue as fast money amounts
- b) adjustments to the RIIO-1 Net RAV additions ($LRAV_t$) flow into Calculated Revenue (R_t) indirectly, by giving rise to adjusted return on RAV and depreciation amounts.

8.6. It should be noted, however, that revisions to LAR_t and $LRAV_t$ values will also have ancillary effects on other calculations which feed into Allowed Revenue, under the AIP.

8.7. The revised LAR_t value and its component values are denoted in nominal terms. $LRAV_t$ values will be denoted in 2018/19 prices, consistent with the price base used in the RIIO-ET2 PCFM.

8.8. On 1 April 2021, the LAR_t and $LRAV_t$ variable values will be provisional. These values will have been determined using forecast data at the time of final determinations for RIIO-ET2 and therefore will be adjusted when outturn data becomes available.

Revision to Legacy Adjustments

8.9. The Legacy PCFM variable values will be revised⁵⁵ as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed through the Close-out of the RIIO-1 price control, as part of the first two AIPs during the RIIO-2 Price Control Period.

8.10. Where applicable, Ofgem will use forecasts to determine a provisional value for legacy adjustments, which will be updated in subsequent AIPs when the outturn data becomes available.

⁵⁵ Except for LMOD₂₀₂₁₋₂₀₂₂, which will not change in the RIIO-ET2 PCFM after it has been set for the Regulatory Year 2020/21.

8.11. It might be necessary for a legacy outturn value to be restated by the licensee or adjusted by Ofgem after it has been applied to the determination of a component term value because of:

- errors or omissions in the preparation of information or inconsistencies with the relevant Regulatory Instructions and Guidance (RIGs) or
- an efficiency review by Ofgem.

8.12. In either of those circumstances, the restated/adjusted legacy outturn value would be applied in place of the original value in a subsequent determination of legacy term values, and reflected in a revision to the relevant PCFM Variable Value for the next AIP.

Legacy Adjustment to Revenue – (LAR_t)

8.13. LAR_t is derived in accordance with the formula in Part A of Special Condition 7.1 and comprises several legacy adjustments (see table 8.1). These legacy adjustments are determined in accordance with the methodologies set out in Chapter 7 of the special conditions.

Table 8.1 – Legacy Adjustments (LAR_t)

LAR_t Components	Description	SpC
LPT_t	Legacy pass-through items	SpC 7.2
$LMOD_t$	Legacy MOD	SpC 7.3
LK_t	Legacy K correction	SpC 7.4
$LTRU_t$	Legacy TRU Term	SpC 7.5
$LSSO_t$	Close out of RIIO-ET1 Stakeholder Satisfaction Output	SpC 7.6
$LEDR_t$	Close out of the RIIO-1 adjustment in respect of the Environmental Discretionary Reward Scheme	SpC 7.7
$LSFI_t$	Close out of RIIO-ET1 Incentive in respect of Sulphur Hexafluoride (SF6) Gas Emissions incentive	SpC 7.8
LRI_t	Close out of RIIO-ET1 Reliability incentive in respect of Energy not Supplied	SpC 7.9
$NOCO_t$	Close out of RIIO-1 Network Outputs	SpC 7.10

8.14. Where a methodology for the calculation of a component of LAR_t refers to a calculation as set out in the RIIO-ET1 special licence conditions in force on 31 March 2021, this should be done with the exception of the Retail Prices Index Forecast Growth Rate calculation, the definition of which refers to “the HM Treasury “Forecasts for the UK Economy” publication, published in November each year.”

8.15. Instead, from 01 April 2021, the Retail Prices Index Forecast Growth Rate should be calculated with reference to the August publication of the HM Treasury Forecasts for the UK Economy publication as the calculation will need to be done in time to feed the LAR_t variable value into the November AIP before the cut-off date set out in Chapter 2 of this handbook.

8.16. For this version of the handbook, further detail is only provided for $LMOD_t$ (Special Condition 7.3), a component term for LAR_t .

Legacy MOD ($LMOD_t$)

8.17. The Legacy MOD ($LMOD_t$) value represents an amount (either positive or negative) to be added to licensee’s Allowed Revenue, which relate to the Regulatory Years prior to the current Price Control Period.

[LMOD values for the first two years of RIIO-ET2](#)

8.18. Ofgem will take the last published RIIO-ET1 PCFM (the RIIO-ET1 Price Control Financial Model following the AIP 2019) and extend the calculations to output a MOD_t value for Regulatory Years following the conclusion of RIIO-ET1. This extended version of the last published RIIO-ET1 PCFM will be referred to as the Legacy RIIO-ET1 PCFM.

8.19. As with the RIIO-1 process, a new MOD_t (eg $MOD_{2021/22}$ and $MOD_{2022/23}$) will be calculated and directed at each AIP, reflecting any changes related to the RIIO-1 variable values or from the closeout process.

8.20. As in the RIIO-1 process, the PCFM Variable Values feeding into the Legacy RIIO-ET1 PCFM are to be derived in accordance with Chapter 6 (Annual Iteration Process - Adjustments to the Transmission Network Revenue Restriction) of the Electricity Transmission licence special conditions and the version of the RIIO-ET1 Price Control Financial Handbook as in force on 31 March 2021.

8.21. These MOD_t values will be denoted in £m 09/10 prices, and then inflated by the $RPIF_t$ term consistent with the RIIO-1 methodology and regulatory reporting packs. This nominal MOD is used as the value of $LMOD_t$, and is added directly to Allowed Revenue in the RIIO-2 period.

8.22. The RIIO-ET2 PCFM, in its state as at 1 April 2021 includes values for $LMOD_{2021/22}$ and $LMOD_{2022/23}$ (forecast), which are determined based on the calculations and formulae in the Legacy RIIO-ET1 PCFM and the data available at Final Determinations.

8.23. The value for $LMOD_{2021/22}$ 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.

8.24. In absence of outturn data⁵⁶, a provisional value will be calculated for $LMOD_{2022/23}$, as at 1 April 2021, based on forecast data. This will then be updated at the subsequent AIP in November 2021, following the submission of outturn expenditure data on 31 July 2021.

~~8.25. If necessary, such as due to a close out methodology, there will be subsequent $LMOD_t$ values directed at the corresponding AIPs, calculated using the same methodology.~~

~~8.26.~~8.25. To calculate the value of LMOD in Regulatory Years 2021/22 or beyond, PVF terms for Regulatory Years within RIIO-2 is required to make the appropriate time value of money adjustment.

~~8.27.~~8.26. The PVF term will be the real rate that, when inflated by the corresponding RPI factor (RPIF), implies the same *nominal* time value of money (TVM_t) used in the RIIO-2 Price Control Financial model for that Regulatory Year.

8.27. For example, if the RIIO-2 term TVM_t has a value of 4.55%, a value of PVF will be used such that when inflated by RPI, the nominal rate is also 4.55%.

LMOD values to reflect the closeout of RIIO-ET1

⁵⁶ There is a two-year lag in reflecting outturn data in Allowed Revenue i.e. outturn data relating to expenditure in Regulatory Year 2020/21 cannot be reflected until after the AIP in 2021 for the Regulatory Year 2022/23.

8.28. Ofgem will take the Legacy RIIO-ET1 PCFM, and modify it to calculate a closeout adjustment value (COA) using the same approach as the MOD calculation, applying the same time value of money as would apply to MODt in 2021/22.

8.29. The value of LMODt for 2023/24, 2024/25 and 2025/26 is derived in accordance with Special Condition 7.3, based on a value of COA (the closeout adjustment) that the Authority will direct.

8.30. In order to direct the value of COA, the Authority will follow the following process:

- Coordinate adjustments to the legacy PCFM in accordance with the closeout methodologies listed in paragraph 8.32
- Ensure "31 March 2024" and the relevant licensee are selected on the "UserInterface" tab of the Legacy RIIO-ET1 PCFM
- Run the tax trigger, then switch the model back into licence model
- Calculate a value of COA using the modified Legacy RIIO-ET1 PCFM from paragraph 8.28
- Direct the value of "COA" (in 18/19 prices) from the "Legacy Summary" tab as the corresponding input to the ED2 PCFM.

8.31. Until the direction of COA, licensees will use their best estimate.

Closeout methodologies

8.32. In order to calculate a value of COA, the following adjustments will be made -to the Legacy RIIO-ET1 PCFM company input tabs in accordance with the Decision on the closeout methodologies for RIIO-ET1⁵⁷ ("the decision"):

- Revise the Physical Site Security costs input (row 14) in accordance with Appendix 4 of the closeout methodology decision (enhanced physical site security costs)

⁵⁷ Ofgem publication, "Decision on the closeout methodologies for RIIO-ET1", published 24 May 2022, <https://www.ofgem.gov.uk/sites/default/files/2022-05/ET1%20closeout%20methodologies%2024May2022.pdf>

- Revise the IWW value (row 19) in accordance with Appendix 3 and Appendix 8 of the closeout methodology decision (terminated wider works projects and crossover volume driver projects)
- Revise the enhancements to pre-existing infrastructure input (row 20) in accordance with Appendix 10 of the closeout methodology decision (SHET's VISTA allowance)
- Revise the demand related infrastructure volume driver input (row 21) to account for Appendix 5 and Appendix 8 of the closeout methodology decision (Terminated connection projects and crossover volume driver projects)
- Revise the generation connections volume driver (row 23) in accordance with Appendix 5, Appendix 8 (NGET and SHET), and Appendix 9 (SPT) of the closeout methodology decision (terminated connection projects, crossover volume driver projects, and connection volume driver clawback)
- Revise non-variant allowed load related capex expenditure (row 84) in accordance with Appendix 2 and Appendix 6 of the closeout methodology decision (connection payments and pre-construction works)
- Revise the excluded services revenue input (row 214) in accordance with Appendix 2 of the closeout methodology decision (connection payments)
- Revise the RAV additions input (row 238) in accordance with Appendix 7 of the closeout methodology decision (asset and land related disposals)

Legacy Adjustment to RAV Additions ($LRAV_t$)

8.33. This section sets out the methodology by which the Authority will determine $LRAV_t$ (Special Condition 7.12) values for the licensee.

LRAV values prior to the closeout of RIIO-ET1

~~8.28.~~8.34. The Authority will derive $LRAV_t$ values relating to RIIO-ET1 Price Control Period, at Final Determinations in accordance with the applicable RIIO-ET1 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (RIGs).

~~8.29.~~8.35. $LRAV_t$ should be calculated in accordance with the PCFM Guidance. Ofgem will take the last published ET1 PCFM (the RIIO-ET1 Price Control Financial Model following the AIP 2019) and extend the calculations to enable the calculation of a RAV position for the final Regulatory Year of RIIO-ET1. Any net additions to RAV balances during this period represent $LRAV_t$ values.

~~8.30-8.36.~~ The $LRAV_t$ values for Regulatory Year 2020/21 are provisional and will be updated with outturn data received by the AIP ending November 2021.

~~8.31-8.37.~~ By 31 October 2021, the Authority will derive finalised $LRAV_t$ values for the Regulatory Year 2020/21 for the licensee by inputting actual cost data submitted by 31 July 2021 into the ET1 PCFM and restating them to 2018/19 prices. There may also be subsequent updates to allowances or other RIIO-1 inputs following the 31 July data submission which will be processed in the same way.

~~8.32-8.38.~~ The $LRAV_t$ values, as determined in para 8.34 and 8.37, are used in the PCFM Variable Values table as historical additions to RAV (RIIO-1 Net RAV additions (after disposals)) relating to RIIO-ET1 Price Control Period and will flow indirectly into RIIO-ET2 Calculated Revenue (R_t).

~~8.33-8.39.~~ The $LRAV_t$ values are contained in the Regulatory Year columns for 2013/14 – 2020/21 (RIIO-ET1 Price Control Period) in RIIO-ET2 PCFM.

Directing final values of $LRAV_t$ and tax pool balances following the closeout of RIIO-ET1

8.40. In directing the value of COA in accordance with paragraph 8.30, the Authority will also direct the corresponding values of $LRAV_t$ and tax pool balances from the Legacy RIIO-ET1 PCFM following implementation of the closeout methodologies in paragraph 8.32.

Schedule 4 (Part A) - ESO Special Conditions

Special Condition 4.8 System Operator Legacy Adjustments (SOLAR_t)

Introduction

4.8.1 The purpose of this condition is to calculate the term $SOLAR_t$ (the System Operator legacy adjustments term), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

Part A: The formula for calculating the System Operator legacy adjustment term (SOLAR_t)

4.8.2 The value of the $SOLAR_t$ term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

$LSOMOD_t$ has the value in sheet *SystemOperator* of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with [Parts B and C](#);

$LSOTRU_t$ is derived in accordance with [Part 6D](#); and

$LSOEMRINC_t$ is derived in accordance with [Part 6E](#).

Part B: The formula for calculating the System Operator legacy MOD term (LSOMOD_t)

4.8.3 [For Regulatory Years commencing on 1 April 2021 and 1 April 2022, t](#)The value of $LSOMOD_t$ is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t * RPIF_t$$

where:

$SOMOD_t$ has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ESO Price Control Financial Model, performed in accordance with [Chapter 67](#) (legacy) of the ESO₂ Price Control Financial Handbook; and

$RPIF_t$ has the value of $RPIF_t$ as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

[4.8.4 For the Regulatory Years commencing on 1 April 2023, the value of \$LSOMOD_t\$ is derived in accordance with the following formula:](#)

$$LSOMOD_t = COA \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

COA means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 6 (Legacy) of the ESO Price Control Financial Handbook;

CWACC_t means compound WACC and has the value derived in accordance with Part B;

PI_t has the value given to it by Part E of Special Condition 4.1; and

PI_{2018/19} has the value given to it by Part E of Special Condition 4.1 for the Regulatory Year commencing on 1 April 2018.

~~4.8.4~~4.8.5 The Authority will direct revisions to LSOMOD_t, coinciding with the Annual Iteration Process.

~~4.8.5~~4.8.6 Before making a direction under paragraphs 4.8.4 and 4.8.5 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Part C: Compound WACC

4.8.7 For the Regulatory Year commencing on 1 April 2021, CWACC_t has the value of 1.

4.8.8 For Regulatory Years commencing on or after 1 April 2022, CWACC_t is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

where:

WACC_t means vanilla weighted average cost of capital, derived in accordance with the ESO Price Control Financial Handbook.

Part C: Part D: The formula for calculating the System Operator legacy TRU term (LSOTRU_t)

~~4.8.6~~4.8.9 For the three Regulatory Years commencing on 1 April 2021 to 1 April 2024~~2022~~, the value of LSOTRU_t is derived in accordance with the following formula:

$$LSOTRU_t = SOTRU_t * RPIF_t$$

where:

SOTRU_t has the value of SOTRU_t as determined in accordance with paragraph 4A.5 of Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021; and

RPIF_t has the value of RPIF_t determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

4.8.10 For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of LSOTRU_t is derived in accordance with the following formula:

$$LSOTRU_t = \left[\frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot SOREV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

RPIA_t has the value given to it by Part C of of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;

RPIF_t has the value of RPIF_t determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 6.14 and 6.15 of the Price Control Financial Handbook.

SOREV_{t-2} Has the value of SOREV_{t-2} as determined in accordance with Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021. For this calculation the component SOPU (SO opening base revenue allowance) is zero.

LPVF_t Has the value derived in accordance with paragraph 4.8.11.

PI_t has the value given to it by Part E of Special Condition 4.1; and

PI_{2009/10} has the value given to it by Part E of Special Condition 4.1 for the Regulatory Year commencing on 1 April 2009.

4.8.11 The value of LPVF_t is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

WACC_t means vanilla weighted average cost of capital, derived in accordance with the ESO Price Control Financial Handbook.

Part D: ~~Part E~~: The formula for calculating the System Operator legacy EMR incentives term (LSOEMRINC_t)

~~4.8.7~~4.8.12 For the two Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LSOEMRINC_t is derived in accordance with the following formula:

$$LSOEMRINC_t = SOEMRINC_t * RPIF_t$$

where:

SOEMRINC_t has the value of SOEMRINC_t as determined in accordance with Part C of Special Condition 4L (Financial Incentives on EMR) of this licence as in force on 31 March 2021; and

RPIF_t has the value of RPIF_t as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook; and for Regulatory Years commencing on or after 1 April 2023 is zero.

Special Condition 4.9 Legacy net RAV additions (LSORAV_t)

Introduction

- 4.9.1 This condition explains the process the Authority will follow when directing values for the term LSORAV_t (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPN_t (the depreciation term as calculated by the ESO Price Control Financial Model), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 4.9.2 The effect is to reflect the close out of the RIIO-ESO Price Control Financial Model in respect of legacy net RAV additions.

Part A: Authority assessment and direction

- 4.9.3 The Authority will direct revisions to LSORAV_t, coinciding with the Annual Iteration Process, and following implementation of closeout methodologies set out in the ESO Price Control Financial Handbook.
- 4.9.4 Before making a direction under paragraph 4.9.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
 - (b) the reasons for the proposed direction; and
 - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Schedule 4 (Part B) - ESO Price Control Financial Handbook

Table 3.1 – PCFM Variable Values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Actual Totex			
SOANC	Actual Capex		PCFM Guidance
SOACO	Actual Opex		PCFM Guidance
Pass-through expenditure			
RB _t	Business Rates Payments	SpC 4.1, Part H	PCFM Guidance
EDE _t	Pension scheme established deficit	SpC 4.1, Part G	PCFH section 6, PCFM Guidance
SOBD _t	Bad Debt Allowance	SpC 4.1, Part I	PCFM Guidance
WCF _t	Additional Funding - WCF	SpC 4.1, Part G	PCFM Guidance
Other Revenue Allowances			
NIA _t	Network Innovation Allowance	SpC 4.6	PCFM Guidance, RIIO-2 NIA Governance Document
CNIA _t	Carry Over RIIO-1 Network Innovation Allowance	SpC 4.7	PCFM Guidance, RIIO-1 NIA Governance Document
Other Funding			
ESORI _t	Reporting & Incentive Arrangements	SpC 4.3	PCFM Guidance, ESORI Guidance Document
ADF _t	Additional Funding - Other	SpC 4.1, Part D	PCFM Guidance
Legacy Adjustments			
LSOMOD _t	System Operator legacy MOD	SpC 4.8, Part B	PCFH section 7, PCFM Guidance
LSOTRU _t	Legacy TRU term	SpC 4.8, Part AD	PCFH section 7, PCFM Guidance
LSOEMRING _t	Legacy Financial Incentives on EMR	SpC 4.8, Part AE	PCFH section 7, PCFM Guidance
LSORAV _t	RIIO-1 net addition to RAV (including disposals)	SpC 4.9	PCFH section 7, PCFM Guidance
<u>COA</u>	<u>Closeout adjustment</u>	<u>SpC 4.8, Part B</u>	<u>PCFH section 7, PCFM Guidance</u>
<u>RPIF_t</u>	<u>RIIO-1 RPI forecast term</u>	<u>SpC 4.8, Part D</u>	<u>PCFH section 7, PCFM Guidance</u>
<u>SOREV_t</u>	<u>Revenue for SOTRU term</u>	<u>SpC 4.8, Part D</u>	<u>PCFH section 7, PCFM Guidance</u>
Directly Remunerated Services			
DRSR _t	Directly remunerated services revenue	SpC 4.1	PCFM Guidance
DRSC _t	Less directly remunerated services cost	SpC 4.1	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
Finance Inputs			
SORFR	Risk-free rate		PCFH section 4, PCFM Guidance
SOCDE	Allowed percentage cost of debt		PCFH section 4, PCFM Guidance
AND _t	Adjusted net debt		PCFM Guidance
TDNI _t	Tax deductible net interest cost		PCFM Guidance
TTE _t	Tax liability - tax trigger events		PCFH section 5, PCFM Guidance
TAXA _t	Tax allowance adjustment	SpC 4.1, part J	PCFH section 5, PCFM Guidance
SOOGPA _t	General pool opening balance adjustment		PCFM Guidance
SOOSRPA _t	Special Rate pool opening balance adjustment		PCFM Guidance
SOIAPGP _t	Transfer intangible assets to the general pool		PCFM Guidance
SOOGP _t	Opening balance brought forward		PCFM Guidance
SOOSRP _t	Special Rate capital allowance opening balance brought forward		PCFM Guidance
SOOSBP _t	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
SOODRP _t	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
SOOIAP _t	Intangible assets capital allowance opening balance brought forward		PCFM Guidance
SOOTL _t	Tax loss brought forward		PCFM Guidance
SOARGP _t	Totex allocation to "General" tax pool		PCFM Guidance
SOARR _t	Totex allocation to "Revenue" tax pool		PCFM Guidance
SOARSR _t	Totex allocation to "Special rate" tax pool		PCFM Guidance
SOARSB _t	Totex allocation to "Structures and Buildings" tax pool		PCFM Guidance
SOARNQ _t	Totex allocation to "Non Qualifying" tax pool		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
SOARDR _t	Totex allocation to "Deferred revenue" tax pool		PCFM Guidance
SOARIA _t	Totex allocation to "Intangible assets" tax pool		PCFM Guidance
SOCT _t	Corporation tax rate		PCFM Guidance
SOGCA _t	Capital Allowance rate		PCFM Guidance
SOSRCA _t	Special Rate allowance rate		PCFM Guidance
SOSBCA _t	Structures and buildings allowance rate		PCFM Guidance
SODRCA _t	Deferred revenue expenditure allowance rate		PCFM Guidance
SOIACA _t	Intangible assets allowance rate		PCFM Guidance
CST _t	Capitalised share of totex		PCFM Guidance

6. Legacy Adjustments

Overview

6.1. This section of the handbook provides an overview of the legacy price control adjustments, which are necessary to take account of:

- a) activities carried out by the licensee;
- b) incentivised performance by the licensee; and / or
- c) costs or expenditure incurred by the licensee,

relating to Regulatory Years prior to Regulatory Year 2021/22 (the “legacy period”).

6.2. Legacy price control adjustments may be necessary where it was not possible to finalise values used in the calculation of the licensee’s price control revenue at final determinations, because of the non-availability of outturn data and other relevant information. Adjustments may also be necessary to correct anomalous positions, acknowledged by Ofgem and the licensee.

6.3. Legacy price control adjustments are divided into two categories, listed below:

- a) Legacy Adjustments to Revenue allowances - $SOLAR_t^{43}$; and
- b) Legacy Adjustments to RIIO-1 RAV additions – $LSORAV_t$

6.4. The variable values $SOLAR_t$ and $LSORAV_t$ give effect to legacy adjustments and represent respectively:

- a) the net incremental changes (which may be positive or negative) to RIIO-2 revenue allowances; and
- b) the RIIO-1 Net RAV additions relating to the RIIO-1 Price Control Period.

6.5. Revisions to $SOLAR_t$ and $LSOPHRAV_t$ affect the calculation of Allowed Revenue for the licensee, through the AIP, in the following ways:

⁴³ The calculation of which is addressed in Special Condition 4.8, Part A.

- a) adjustments to revenue allowances ($SOLAR_t$) flow directly into Allowed Revenue as fast money amounts
- b) adjustments to the RIIO-1 Net RAV additions ($LSORAV_t$) flow into Calculated Revenue (R_t) indirectly, by giving rise to adjusted return on RAV and depreciation amounts.

6.6. It should be noted, however, that revisions to $SOLAR_t$ and $LSORAV_t$ values will also have ancillary effects on other calculations which feed into Allowed Revenue, under the AIP.

6.7. Revised $SOLAR_t$ and its components are denoted in nominal terms. $LSORAV_t$ values will be denoted in 2018/19 prices, consistent with the price base used in the ESO PCFM.

6.8. On 1 April 2021, the $SOLAR_t$ and $LSORAV_t$ variable values will be provisional. These values will have been determined using forecast data at the time of final determinations and therefore will be adjusted when outturn data becomes available.

Revision to Legacy Adjustments

6.9. The Legacy PCFM Variable Values will be revised as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed through the Close-out of the RIIO-1 price control, as part of the first two AIPs during the RIIO-2 Price Control Period.

6.10. Where applicable, Ofgem will use forecasts to determine a provisional value for legacy adjustments, which will be updated in subsequent AIPs when the outturn data becomes available.

6.11. It might be necessary for a legacy outturn value to be restated by the licensee or adjusted by Ofgem after it has been applied to the determination of a component term value because of:

- errors or omissions in the preparation of information or inconsistencies with the relevant Regulatory Instructions and Guidance (RIGs) or
- an efficiency review by Ofgem.

6.12. In either of those circumstances, the restated/adjusted legacy outturn value would be applied in place of the original value in a subsequent determination of legacy term values, and reflected in a revision to the relevant PCFM Variable Value for the next AIP.

Legacy Adjustment to Revenue – (SOLAR_t)

6.13. SOLAR_t is derived in accordance with the formula in Part A of Special Condition 4.8 and comprises three legacy adjustments (see Table 7.1). These legacy adjustments are determined in accordance with the methodologies set out in Chapter 4 of the special conditions.

Table 7.1 – Legacy Adjustments (SOLAR_t)

SOLAR _t Components	Description	SpC
LSOMOD _t	System Operator Legacy MOD	SpC 4.8, PART B
LSOTRU _t	System Operator TRU Term	SpC 4.8, PART A
LSOEMRINC _t	System Operator Financial incentives on EMR	SpC 4.8, PART A

6.14. Where a methodology for the calculation of a component of SOLAR_t refers to a calculation as set out in the RIIO-ET1 special licence conditions in force on 31 March 2021, this should be done with the exception of the Retail Prices Index Forecast Growth Rate calculation, the definition of which refers to “the HM Treasury “Forecasts for the UK Economy” publication, published in November each year.”

6.15. Instead, from 1 April 2021, the Retail Prices Index Forecast Growth Rate should be calculated with reference to the August publication of the HM Treasury Forecasts for the UK Economy publication as the calculation will need to be done in time to feed the SOLAR_t variable value into the November AIP before the cut-off date set out in Chapter 2 of this handbook.

6.16. For this version of the handbook, further detail is only provided for LSOMOD_t (Special Condition 4.8, Part B), a component term for SOLAR_t.

Legacy MOD (LSOMOD_t)

6.17. The Legacy MOD ($LSOMOD_t$) value represents an amount (either positive or negative) to be added to licensee's Allowed Revenue, which relate to the Regulatory Years prior to the current Price Control Period.

LSOMOD_t values for the first two years of RIIO-2

6.18. Ofgem will take the last published RIIO-ET1 PCFM (the RIIO-ET1 Price Control Financial Model following the AIP 2019) and extend the calculations on the 'System Operator's' worksheet, to output a $SOMOD_t$ value for Regulatory Years following the conclusion of RIIO-ET1. This extended version of the last published RIIO-ET1 PCFM will be referred to as the Legacy ESO RIIO-1 PCFM and the RIIO-1 Price Control Period associated with the system operator will be referred to as the ESO RIIO-1 Price Control Period.

6.19. As with the RIIO-1 process, a new $SOMOD_t$ (eg $SOMOD_{2021/22}$ and $SOMOD_{2022/23}$) will be calculated and directed at each AIP, reflecting any changes related to the RIIO-1 variable values or from the closeout process.

6.20. As in the RIIO-1 process, the PCFM Variable Values feeding into the Legacy ESO RIIO-1 PCFM are to be derived in accordance with Chapter 6 (Annual Iteration Process - Adjustments to the System Operator Revenue Restriction) of the Electricity Transmission Licence special conditions and the version of the RIIO-ET1 Price Control Financial Handbook as in force on 31 March 2021.

6.21. These $SOMOD_t$ values will be denoted in £m 09/10 prices, and then inflated by the $RPIF_t$ term consistent with the RIIO-1 methodology and regulatory reporting packs. This nominal $SOMOD$ is used as the value of $LSOMOD_t$, and is added directly to Allowed Revenue in the RIIO-2 period.

6.22. The ESO PCFM, in its state as at 1 April 2021 includes values for $LSOMOD_{2021/22}$ and $LSOMOD_{2022/23}$ (forecast), which are determined based on the calculations and formulae in the Legacy ESO RIIO-1 PCFM and the data available at Final Determinations.

6.23. The value for $LSOMOD_{2021/22}$ 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 $LSOMOD_t$ will not change in any subsequent AIP.

6.24. In absence of outturn data⁴⁴, a provisional value will be calculated for LSOMOD_{2022/23}, as at 1 April 2021, based on forecast data. This will then be updated at the subsequent AIP in November 2021, following the submission of outturn expenditure data on 31 July 2021.

~~6.25. If necessary, such as due to a close-out methodology, there will be subsequent LSOMOD_t values directed at the corresponding AIPs, calculated using the same methodology.~~

~~6.26.~~6.25. To calculate the value of LMOD in Regulatory Years 2022/23 or beyond, PVF terms for Regulatory Years within RIIO-2 are required to make the appropriate time value of money adjustment.

~~6.27.~~6.26. The PVF term will be the real rate that, when inflated by the corresponding RPI factor (RPIF), implies the same *nominal* time value of money (TVM_t) used in the RIIO-2 Price Control Financial model for that Regulatory Year.

6.27. For example, if the RIIO-2 term TVM_t has a value of 4.55%, a value of PVF will be used such that when inflated by RPI, the nominal rate is also 4.55%.

LSOMOD_t values to reflect the closeout of RIIO-ET1

6.28. Ofgem will take the Legacy RIIO-ET1 PCFM and modify it to calculate a closeout adjustment value (COA) using the same approach as the SOMOD_t calculation, applying the same time value of money as would apply to SOMOD_t in 2021/22.

6.29. The value of LSOMOD_t for 2023/24 is derived in accordance with Special Condition 4.8, Parts B and C based on a value of COA (the closeout adjustment) that the Authority will direct.

6.30. In order to direct the value of COA, the Authority will follow the following process:

- Coordinate adjustments to the Legacy RIIO-ET1 PCFM in accordance with the closeout methodologies listed in paragraph 6.28

⁴⁴ There is a two-year lag in reflecting outturn data in Allowed Revenue i.e. outturn data relating to expenditure in Regulatory Year 2020/21 cannot be reflected until after the AIP in 2021 for the Regulatory Year 2022/23.

- Ensure “31 March 2024” and the relevant licensee are selected on the “UserInterface” tab of the Legacy RIIO-ET1 PCFM
- Run the tax trigger, then switch the model back into licence model
- Calculate a value of COA using the modified Legacy RIIO-ET1 PCFM from paragraph 6.28
- Direct the value of “COA” (in 18/19 prices) from the “Legacy Summary” tab as the corresponding input to the ESO PCFM.

6.31. Until the direction of COA, licensees will use their best estimate for the value of this term unless advised otherwise by the Authority.

Closeout methodologies

6.32. In order to calculate a value of COA, the following adjustments will be made to the Legacy RIIO-ET1 PCFM company input tab in accordance with the Decision on the RIIO-1 close out methodologies for the ESO ⁴⁵ (“the decision”):

- Revise the Electricity Market Reform (EMR) IT funding- revise₇ row 11 (SOEMRES) in accordance with the decision chapter 3.
- Offshore Coordination Project- revise₇ row 11 (SOEMRES) in accordance with the decision chapter 4; and,
- Early Competition Plan Project- revise row 11 (SOEMRES) in accordance with the decision chapter 5.

Legacy Adjustment to RAV Additions (LSORAV_t)

6.33. This section sets out the methodology by which the Authority will determine LSORAV_t (Special Condition 4.9) values for the licensee.

LSORAV_t values prior to the closeout of RIIO-ET1

⁴⁵ Ofgem publication: Decision on the RIIO-1 close out methodologies for the Electricity System Operator | Ofgem

~~6.28-~~6.34. The Authority will derive $LSORAV_t$ values relating to ESO RIIO-1 Price Control Period, at Final Determinations in accordance with the applicable RIIO-ET1 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (RIGs).

~~6.29-~~6.35. $LSORAV_t$ should be calculated in accordance with the PCFM Guidance. Ofgem will take the last published ET1 PCFM (the RIIO-ET1 Price Control Financial Model following the AIP 2019) and extend the calculations to enable the calculation of a RAV position for the final Regulatory Year of RIIO-1. Any net additions to RAV balances during this period represent $LSORAV_t$ values.

~~6.30-~~6.36. The $LSORAV_t$ values for Regulatory Year 2020/21 are provisional and will be updated with outturn data received by the AIP ending November 2021.

~~6.31-~~6.37. By 31 October 2021, the Authority will derive finalised $LSORAV_t$ values for the Regulatory Year 2020/21 for the licensee by inputting actual cost data submitted by 31 July 2021 into the Legacy ESO RIIO-1 PCFM and restating them to 2018/19 prices. There may also be subsequent updates to allowances following the 31 July data submission which will be processed in the same way.

~~6.32-~~6.38. The $LSORAV_t$ values, as determined above are used in the PCFM Variable Values table as historical additions to RAV (RIIO-1 Net RAV additions (after disposals)) relating to ESO RIIO-1 Price Control Period and will flow indirectly into ESO RIIO-2 Calculated Revenue (R_t).

6.39. The $LSORAV_t$ values are contained in the Regulatory Year columns for 2013/14 – 2020/21 (ESO RIIO-1 Price Control Period) in ESO PCFM.

Directing final values of $LSORAV_t$ following the closeout of RIIO-ET1

6.40. *In directing the value of COA in accordance with paragraph 6.30, the Authority will also direct the corresponding values of $LSORAV_t$ from the Legacy RIIO-ET1 PCFM following implementation of the closeout methodologies in paragraph 6.32.*

Schedule 5 – Changes to the RIIO-2 Price Control Financial Models (PCFMs)

The PCFMs containing the proposed modifications are attached as appendices to this consultation. The changes have been highlighted in yellow. A summary of the changes follows below.

Part A: Changes to accommodate the closeout adjustment

Proposed modifications to the PCFM are highlighted yellow in the attached appendices.

The modifications made to the PCFM are as follows:

- Inserted a row in all licensee input sheets labelled “Closeout adjustment”.
- In the master Input sheet (or SystemOperator sheet, if applicable), the formulas in the cells for the last three LMOD values were deleted and formatting was cleared.
- Inserted two additional input rows in the legacy adjustments section of the Input sheet (or SystemOperator sheet if applicable) labelled “Closeout adjustment” and “Compound WACC”. The closeout adjustment is a single variable value which is picked up from the licensee input sheets. The Compound WACC values are calculated from the WACC values on the Input tab, with a hardcoded value of 1 for FYE 2022.
- Added the formula for the final 3 LMOD terms (or final 1 LMOD term in the case of the ESO and NGGT) per the proposed LMOD licence algebra.

Part B: Changes to add the calculation of the TRU term

The modifications made to the PCFM are as follows:

- Added rows on network input tabs for companies to input the REV_t and $RPIF_t$ terms, required to calculate the value of TRU_t
- Revised blue shading to clarify what cells needed to be filled in
- Revised the input tab “legacy adjustments” section to calculate TRU for Regulatory Years 2023/24 and 2024/25 (rather than it being based on user input). This calculation matches the algebra set out in the TRU special condition from this consultation.

Part C: Changes to make disposals values PCFM Variable Values

The modifications made to the RIIO-GD2 PCFM are as follows:

- Changed the colour of row 464 of company input tabs to blue and adding the label “ $DISP_t$ ”, indicating it as a variable value
 - Changed the colour of row 557 of the “Input” tab to indicate it is now linked to an updated variable value
 - Added a row to table 3.1 of the GD2 Price Control Financial Handbook, which lists a new “DISP” term as a variable value, indicating licensees are required to revise this variable.
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