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, Tthe 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 LMODt 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.

7.3.47.3.5   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~~set out 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 LTRUt 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 (~~Oo~~pening ==Bb==ase ~~demand Rr~~evenue ==Aa==llowance) 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 LPVFt is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

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

~~7.5.4~~7.5.6   The value of LTRUt 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.