

Consultation

Statutory consultation to modify the GD2 Price Control Financial Handbook		
Publication date	25 May 2023	Team: Regulatory Finance
Response deadline	22 June 2023	Email: RegFinance@ofgem.gov.uk

We are consulting on a proposed modification to the GD2 Price Control Financial Handbook to implement our Decision on the Closeout of the RII0-GD1 Tax Clawback for WWU. We would like views from stakeholders and the public.

This document outlines the purpose of the consultation and the reasons for and effects of our proposed modification. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Background

- 1.1 On 29 July 2022, we published our decision on the closeout of the RIIO-GD1 Tax clawback for WWU (our “**July Decision**”).¹ That decision formed part of a broader set of decisions on the closeout methodologies for RIIO-GD1, which was otherwise published on 14 April 2022.²
- 1.2 In our July Decision, we outlined the rationale for our closeout methodology decision for the two adjustments needed to correct the RIIO-GD1 Tax Clawback variable value; one for the pre-GD1 period and one for the RIIO-GD1 period.
- 1.3 We also set out the next steps, which were to engage further with WWU and the other Gas Distribution Networks through a series of working group meetings to agree on the precise adjustments needed to the GD2 Special Licence Conditions, GD2 Price Control Financial Model (the “**GD2 PCFM**”), GD2 Price Control Financial Handbook (the “**GD2 Handbook**”) and the Legacy GD1 models required to reflect the close-out adjustments into the GD2 PCFM and therefore in GD2 Allowed Revenues.
- 1.4 These working groups, known as “Legacy PCFM Working Groups”, took place later in the summer of 2022 and following them, we published a statutory consultation to modify the RIIO-2 Price Control Financial Instruments and licence conditions to implement the closeout of RIIO-1 for all Gas Distribution and Transmission network licensees in September 2022.³
- 1.5 The modifications proposed in September 2022 included an addition into the RIIO-GD2 handbook to incorporate a list of the RIIO-GD1 close-out methodologies including the tax clawback closeout methodology decision that was published in July 2022. WWU raised some new concerns in relation to the RIIO-GD1 tax clawback calculation and so we decided not to include the tax clawback methodology within the modification decision, while WWU’s concerns were addressed.⁴

¹ [Decision on the closeout of the RIIO-GD1 Tax clawback for WWU | Ofgem](#)

² [Decision on the closeout methodologies for RIIO-GD1 | Ofgem](#)

³ [Statutory Consultation to modify the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

⁴ [Decision on modifications to the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

2. Proposed modification

- 2.1 Following further consideration and engagement with WWU, we are now consulting on a proposal to modify the GD2 handbook to include a reference to the tax clawback closeout methodology decision that was published in our July Decision. The text of the proposed modification is set out at Appendix 2.
- 2.2 The reason for this proposed modification is to establish a link between the July Decision and the GD2 handbook. This will enable us to reflect the financial impact of the July Decision in the GD2 PCFM by updating the PCFM Variable Values that relate to the closeout of RIIO-GD1 at the next Annual Iteration Process.
- 2.3 The detailed mechanics for doing this are described in the “Closeout Reasons and Effect” document published in our wider Closeout implementation statutory consultation: [Statutory Consultation to modify the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#).
- 2.4 The effect of this modification is to include a reference to the July Decision within the list of closeout methodologies shown at paragraph 8.32 of the GD2 Handbook along with a footnote containing the link to the July Decision. See Appendix 2.

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Appendix 1 - Notice

To:

Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales and West Utilities Limited

Gas Act 1986 Section 23(2)

Notice of statutory consultation on a proposal to modify the RIIO-GD2 Price Control Financial Handbook to implement the closeout of the RIIO-GD1 Tax clawback for WWU.

1. The Gas and Electricity Markets Authority (the "**Authority**")⁵ proposes to modify the GD2 Price Control Financial Handbook (the "**Handbook**") as a constituent part of the Gas Transporter licence held by each of the licensees listed above (the "**Licensees**") granted or treated as granted under section 7 of the Gas Act 1986 in the manner set out in Appendix 2 attached to this notice and as described in the consultation document accompanying this notice.
2. We are proposing this licence modification to implement the financial effect of our decision on the closeout of the RIIO-GD1 Tax clawback for WWU.⁶ The text of the proposed modification is set out in Appendix 2 attached to this notice, with any text to be deleted marked with ~~strikethrough~~ and new text to be inserted shown underlined.
3. The reasons for and the effect of the proposed modification to the GD2 handbook are set out in the consultation document accompanying this notice.
4. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.
5. Any representations with respect to the proposed licence modifications must be made on or before 22 June 2023 to: Mick Watson, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to RegFinance@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish 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.
7. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

⁵ The terms "the Authority", "we" and "us" are used interchangeably in this document.

⁶ <https://www.ofgem.gov.uk/publications/decision-closeout-riio-gd1-tax-clawback-wwu>

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Mick Watson

Chief Financial Advisor

Deputy Director

Duly authorised on behalf of the Gas and Electricity Markets Authority

25 May 2023

Appendix 2 – GD2 Price Control Financial Handbook

See below for an extract of the GD2 handbook containing the proposed modification to implement our Decision on the closeout of the RIIO-GD1 tax clawback for WWU by including a reference to it within the "Closeout methodologies" section of the GD2 handbook.

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-GD1⁵⁷
- Adjust the Disposals (pre-vesting and post-vesting) amounts on rows 186 and 198 of company input tabs, in accordance with chapter 9 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.
- [WWU Only] Adjust the tax clawback amount on row 24 of the company input tabs (TGIE) in accordance with our Decision on the closeout of the RIIO-GD1 tax clawback for WWU.⁵⁸

Legacy Adjustment to RAV Additions (LRAV_i)

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

LRAV values for the first two years of RIIO-GD2

8.34. The Authority will derive LRAV_i 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).

8.35. LRAV_i 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

⁵⁷ 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>

⁵⁸ Decision on the closeout of the RIIO-GD1 Tax clawback for WWU | Ofgem