

Decision

Decision on modifications to the GD2 Price Control Financial Handbook

Publication date:	08/09/2023
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We consulted from 25 May 2023 to 22 June 2023 on a proposed modification to the GD2 Price Control Financial Handbook to implement our Decision on the Closeout of the RIIO-GD1 Tax Clawback for WWU.

This document sets out our decision to proceed with this modification.

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1. Introduction

Section summary

This section sets out the context of this Decision, the reasons and effects of the modification, as well as the responses from stakeholders.

Context and related publications

- 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 then, 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

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](#)

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

- 1.6 Following further consideration and engagement with WWU, we published a statutory consultation 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.⁵

Our decision-making process

- 1.7 On 25 May 2023, we published a statutory consultation titled "Statutory consultation to modify the GD2 Price Control Financial Handbook to implement our Decision on the Closeout of the RIIO-GD1 Tax Clawback for WWU". The statutory consultation closed on 22 June 2023.
- 1.8 We received one response to the consultation. This response was from WWU and stated, "We have no comments on the proposed modifications to paragraph 8.32 of the PCFH."
- 1.9 Given there were no comments on this proposed modification, we have decided to implement the modification as outlined in the statutory consultation. The text of the modification is set out at Appendix 2.
- 1.10 WWU's response also made a point in relation to calculations within the Legacy RIIO-GD1 PCFM. We have not responded to this point in this document as it is outside the scope of this consultation.
- 1.11 The reason for this 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.

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

⁵ [Statutory consultation to modify the GD2 Price Control Financial Handbook to implement our Decision on the Closeout of the RIIO-GD1 Tax Clawback for WWU | Ofgem](#)

- 1.12 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](#).
- 1.13 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.

Decision-making stages

Date	Stage description
25/05/2023	Stage 1: Consultation open
22/06/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
08/09/2023	Stage 3: Responses reviewed and published
08/09/2023	Stage 4: Consultation decision/policy statement

Appendices

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Appendix 1 – Direction

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(1)(a)

Modification of the RII0-GD2 Price Control Financial Handbook to implement the closeout of the RII0-GD1 Tax clawback for WWU.

1. The Gas and Electricity Markets Authority (the “**Authority**”)⁶ has decided 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 (the “**Act**”) in the manner set out in Appendix 2 attached to this direction and as described in the decision document accompanying this direction.
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority (‘the Authority’)⁷ gave notice on 25 May 2023 (‘the Notice’) that we propose to modify paragraph 8.32 of Handbook as a constituent part of the Gas Transporter licence. We stated that any representations to the modification proposal must be made on or before 22 June 2023.⁸
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the modification should not be made.
4. We received one response to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying letter.
5. The reasons for and the effect of the modification to the GD2 handbook are set out in the decision document accompanying this direction.
6. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁹ requires that the appellant must send to any relevant licence holders who

⁶ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

⁷ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

⁸ <https://www.ofgem.gov.uk/publications/statutory-consultation-modify-gd2-price-control-financial-handbook-implement-our-decision-closeout-riio-gd1-tax-clawback-wwu>

⁹ CMA70

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 23(1)(a) of the Act, we hereby modify the GD2 Price Control Financial Handbook (the "Handbook") in the manner specified in Appendix 2. This decision will take effect from 4 November 2023.

This document is notice of the reasons for the decision to modify the GD2 Price Control Financial Handbook (the "Handbook") as a constituent part of the Gas Transporter licence held by the Licensees as required by section 38A of the Act.

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Mick Watson
Chief Financial Advisor
Deputy Director
Duly authorised on behalf of the Gas and Electricity Markets Authority
08 September 2023

Appendix 2 – GD2 Price Control Financial Handbook

See below for an extract of the GD2 handbook containing the 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. The new text inserted is shown with single underlined red text. Any text deleted is marked with ~~strikethrough~~.

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-GD1¹⁰
- 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.¹¹

¹⁰ 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>

¹¹ [Decision on the closeout of the RIIO-GD1 Tax clawback for WWU | Ofgem](#)