Guidance

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Sizewell C Price Control Financial Handbook

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This is the Sizewell C Price Control Financial Handbook which forms part of Special Condition 26 (Price Control Financial Model) of the Electricity Generation Licence held by a nuclear generator.

This document consists of:

a) requirements for how licensees must use the Sizewell C Price Control Financial Model (PCFM) to determine the Allowed Revenue;
b) an overview of the Variable Values used in the Sizewell C PCFM; and
c) details of how certain Variable Values are revised or calculated.

The procedures relating to modification of this handbook and the Sizewell C PCFM are contained in Part D (Modifications to the Price Control Financial Guidance and Price Control Financial Handbook) of Special Condition 26 (Price Control Financial Model).

Ofgem is the Office of Gas and Electricity Markets. We are the independent energy regulator for England, Scotland and Wales (Great Britain), and we are governed by the Gas and Electricity Markets Authority ('the Authority'). The terms “Ofgem”, “the Authority”, “we”, “us” and “our” may be used interchangeably in this document.

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1. Introduction

1.1 The Electricity Generation licence: Special Conditions for a Nuclear Generator (the Licence) outlines the methodology for calculating the annual Allowed Revenue. Special Condition 30 (Allowed Revenue during the Pre-PCR Phase) and Special Condition 48 (Allowed Revenue during the Operations Phase) determines the annual Allowed Revenue the licensee can recover from consumers. The Sizewell C PCFM is a Price Control Financial Instrument which provides for the calculation of Allowed Revenue. Certain inputs to the Sizewell C PCFM (the PCFM Variable Values) are updated, resulting in updates to Allowed Revenue within the Price Control Period.

1.2 This handbook sets out how licensees must use the Sizewell C PCFM to determine Allowed Revenue.

1.3 This handbook provides:

a) a description of the Sizewell C PCFM;

b) the process the licensee must follow in calculating Allowed Revenue;

c) an overview of the PCFM Variable Values used in the Sizewell C PCFM; and

d) details of how certain PCFM Variable Values are revised or calculated.

Related documents

1.4 This handbook is one of several documents relevant to the calculation of Allowed Revenue. Other documents include:

a) Sizewell C Licence – Special Conditions;

b) Sizewell C Price Control Financial Model;

c) Associated Documents including Regulatory Instructions and Guidance (the RIGs) and the Price Control Financial Guidance; and

d) any documents we publish in relation to the PCR Determination and subsequent price controls.

1.5 In any case of a conflict of meaning between these documents, the following order of precedence applies:

a) the relevant Licence conditions;

b) the Sizewell C Price Control Financial Handbook;

c) the Sizewell C Price Control Financial Model;

d) other Licence instruments; and

e) Associated Documents including the Price Control Financial Guidance.

Document structure

1.6 The remainder of this handbook is structured as follows:

a) Section 2 provides an overview of the Sizewell C PCFM;

b) Section 3 lists the PCFM Variable Values used in the Sizewell C PCFM; and

c) subsequent sections provide details of how certain PCFM Variable Values are revised or calculated (along with further details on the Sizewell C PCFM).

Definitions

1.7 This handbook uses defined terms, which are capitalised throughout this handbook, with the meaning found in the following locations:

a) the table given below;

b) Electricity Generation Licence: Special Conditions for Nuclear Generator; and

c) Standard Condition 1 of the Electricity Generation Licence (Definitions and Interpretation).

Dry Run(s)

means the process for Licensees to operate the Sizewell C PCFM on a draft basis, to facilitate working-level engagement between the Licensees and Ofgem ahead of the requirements for the Annual Revenue Setting Process specified in the Licence.

CPIH

means the Consumer Prices Index Including Owner Occupiers' Housing Costs.

OBR

means Office for Budget Responsibility

Sizewell C PCFM

means the Sizewell C Price Control Financial Model.

RAB

means Regulated Asset Base

PCR

means Post Construction Review

SoS

means Secretary of State

Time Value of Money

means an adjustment within the K-Factor True Up to reflect the financial impact of the timing of cash flows and applied to historic under or over recovery of Allowed Revenue within the Siewell C PCFM.

O&M

means Operations and Maintenance

ISFS

means Interim Spent Fuel Storage

2. The Sizewell C PCFM and Calculation of Allowed Revenue

The Price Control Financial Model

2.1 For each Charging Year, the Sizewell C PCFM calculates the Allowed Revenue in accordance with the special conditions in the Sizewell C Electricity Generation Licence.

2.2 The Sizewell C PCFM incorporates Variable Values for both the licensee and Authority, which are used to calculate the Allowed Revenue for each Charging Year. The Allowed Revenue for the licensee during each Charging Year of the Price Control Period is calculated based on these PCFM Variable Values, along with the formulae and functions embedded in the Sizewell C PCFM.

2.3 Items that do not meet the definition of "PCFM Variable Values" as specified in the licence are either fixed for the duration of the Pre-PCR phase at licence award or are subject to periodic revision, with associated appeal rights as defined in accordance with paragraph 12 of Special Conditions 26.

2.4 At the outset of each period, Allowed Revenue is calculated by the Sizewell C PCFM, using PCFM Variable Values in accordance with the Electricity Generation Licence.

2.5 The Regulatory Regime consists of two distinct phases which determines the methodology for calculating the Allowed Revenue:

a) The Pre-PCR phase:

   i. This phase includes construction and commissioning phases of the nuclear licence, until the Post Construction Review (PCR). During the Pre-PCR phase, the licensee will receive an Allowed Revenue which will support the Regulated Business during the construction and commissioning of the nuclear plant.

   ii. The methodology for calculating the Allowed Revenue during the Pre-PCR phase is made in accordance with Special Condition 30 (Allowed Revenue during the Pre-PCR Phase).

b) The Operations Phase:

   i. During the PCR, Ofgem will conduct a review of the Regulated Business in preparation for the transition to the first Control Period during the Operations Phase. Ofgem will make a series of regulatory determinations during the PCR, including setting the regulatory WACC. The Operations Phase extends for the duration of the operating lifetime of the nuclear plant and until the end of the Initial Regulatory Period.

ii. The methodology for calculating the Allowed Revenue during the Operations phase is made in accordance with Special Condition 48 (Allowed Revenue during the Operations Phase).

2.6 As outlined in paragraph 7 of Special Condition 24 (Allowed Revenue) of the Licence, the licensee is responsible for operating the latest PCFM to calculate the licensee's Allowed Revenue, for notification by Ofgem and the subsequent notification to the LCCC of the value of the difference payment for each financial year. Sizewell C is required (when operating the PCFM) to follow the PCFH.

2.7 The licensee must provide its calculation of the annual Allowed Revenue in accordance with the relevant dates detailed in the Licence. In some cases, these dates are specified in the Licence conditions, for example, the Opex Building Block, in addition to date specified for the Annual Revenue Setting Process.

2.8 The detailed timeline we specify to Sizewell C for working-level submissions will run in advance of the Licence deadlines in order to reduce the probability of errors via a process of structured 'dry runs'. These will be specified in Dry Runs Process under paragraph 2.43 to 2.55.

Price base

2.9 The Sizewell C PCFM works in a constant price base (currently 2024/25 prices), except in respect of some calculations internal to the model that use nominal prices, e.g. some finance and tax calculations. The use of nominal prices in the Sizewell C PCFM tax calculations more accurately reflect the licensee's tax expenses profile in revenue allowance calculations. Where applicable, the row labels in the Sizewell C PCFM will specify the price base of the values in that row.

2.10 The CPIH Price Index Adjustment Factor is used to convert from constant prices to nominal prices. The exact calculation is set out in Part B (Definitions) (under the definition of Applicable CPIH Price Index Adjustment Factor) of Special Condition 1 (Interpretation and Definitions) and this is labelled in the PCFM as the 'Price conversion factor'.

Indexation

2.11 The Sizewell C PCFM "FinancialInputs" tab contains historical and forecast values of the price index.

2.12 There are three PCFM Variable Values relevant for the treatment of indexation in the PCFM:

a) Outturn CPIH inflation data, which relates to the outturn index data published by the Office for National Statistics (ONS), will be input into the row labelled "CPIH + forecast." The PCFM will be updated once a year as part of the Annual Revenue Setting process (ONS CPIH outturn data series ID L522). In accordance with Special Condition 1 (under the definition of: Applicable CPIH Price Index Adjustment Factor), the data required will be either:

   i. the year average CPIH index for the relevant Charging Year t; or

   ii. the CPIH index for November in Charging Year t-1, as the context requires, and in each case published by the Office for National Statistics

   At the time the licensee is submitting the PCFM, if there is insufficient outturn index data to calculate an arithmetic year average, the licensee must use the CPIH outturn index value for November. For all other outturn years, the licensee will calculate an arithmetic year average CPIH.

b) Short-run forecast CPIH inflation data (OBR_t) relates to the CPIH inflation forecast for the years following the latest outturn CPIH value. The licensee will populate the Sizewell C PCFM (row labelled "OBR Forecast") with the forecast index data reported by the OBR for the five years following the latest outturn CPIH value. The OBR forecast data can be obtained through:

   i. accessing the 'Economic and fiscal outlook' publication which can be found on the bottom left of the page under the 'Publications' category;

   ii. selecting the file titled '[Current Month & Year] Economic and fiscal outlook – detailed forecast tables: economy' (e.g. March 2024 Economic and fiscal outlook – detailed forecast tables: economy); and

   iii. Using the data on table 1.7: Inflation.

c) The long-term inflation assumption (labelled CPIH OBR long-term forecast) is forecasted by the OBR, currently using the UK government's 2% inflation target set for the Bank of England.

2.13 The Sizewell C Price Control Financial Model will use the forecast CPIH index data inputs to project an annual inflation forecast relative to outturn inflation data reported by the ONS. The forecast will be calculated in accordance with the following formula:

$$CPIH_{t,+forecast} = CPIH_{t-1} \times (1 + OBR_t)$$

Where $CPIH_{t,+forecast}$ means the outturn CPIH values reported by ONS adjusted by the forecast CPIH reported by the OBR.

Temporal convention

2.14 The following conventions apply throughout this handbook:

a) Relative references: The AR_t term is the licensee's Allowed Revenue for each Charging Year t during the Price Control Period. References in this handbook to Charging Years are made relative to that usage. For example, in the context of AR_t for Charging Year 2024/25, a reference in the same context to Charging Year t-1 would mean 2023/24 and so on. It is important to note that the numerical submissions provided to Ofgem for the operation of the Price Control Financial Model (PCFM) may include estimates or forecasts. These projections are incorporated to ensure a comprehensive and accurate representation of the financial model.

b) Absolute references: A reference to, for example, 'RAB_{pcr} value for 2024/25' means the RAB_{pcr} value in the 2024/25 column of the PCFM Variable Values table for the licensee contained in the Sizewell C PCFM.

PCFM Variable Values

2.15 Ofgem will rely on input data provided by the licensee to calculate the Allowed Revenue. The Sizewell C PCFM Variable Values provided by the licensee should reflect actuals but, where actual data is not available at the time of submission, the licensee should provide a provisional value using the following order of precedence:

a) If applicable, in accordance with the approach specified in the Licence;

b) PCFH;

c) Documents associated with the RIGs;

d) The Price Control Financial Guidance; and

e) If the above documents do not apply, the Licensee's best estimate on the basis of the information available at the time, alongside supporting commentary that describes the basis of the Licensee's estimate.

2.16 Unless otherwise stated in the RIGs guidance (or elsewhere), the RIGs will provide the primary source of evidence for the licensee's provision of data to support the revision of PCFM Variable Values. We expect the submissions the licensee provides via the RIGs to be consistent with the PCFM Variable Values and the Licensee is able to justify its approach if queried.

2.17 The RIGs guidance document provides Licensees with instructions on the appropriate accounting treatments to apply when reporting financial information to the Authority. As a general principle, financial information should be reported on an accruals basis. However, if the RIGs guidance specifies, this information should be reported on a cash basis or another designated method.

2.18 For future periods the equivalent data should be forecast and/or estimated figures, and if queried, the licensee should be able to articulate the basis on which the figures have been generated.

Time value of money

2.19 The Sizewell C PCFM uses a time value of money adjustments to incorporate the financial impact of the timing of cash flows, e.g. from switching revenues between Charging Years as a result of changes to previous Charging Years' Allowed Revenue or to correct a charging error for any over or under-recovery.

2.20 The time value of money rate used in the Sizewell C PCFM is based on the licensee's nominal WACC, which is calculated on row 41 of AR sheet in the Sizewell C PCFM and is derived in accordance with the formula in paragraph 11 of Special Condition 30 (Allowed Revenue during the Pre-PCR Phase) and paragraph 12 of Special Condition 48 (Allowed Revenue during the Operations Phase).

K-factor true up

2.21 The Sizewell C PCFM calculates the K-factor to provide a true up as part of the Allowed Revenue for Charging Year$_t$ in the Pre-PCR and Operational Phases. It considers the difference between forecast, provisional or estimated values with actual out-turn values. The K-factor also takes into account the correction of errors and revisions of data identified as a result of assurance activities.

2.22 The K-factor used in the Sizewell C PCFM is calculated on row 43 of AR sheet in the Sizewell C PCFM and is derived in accordance with the formula in paragraph 9 of Special Condition 30 (Allowed Revenue during the Pre-PCR Phase) and paragraph 8 Special Condition 48 (Allowed Revenue during the Operations Phase).

Changing the Sizewell C PCFM

2.23 The Sizewell C PCFM exists as a Sizewell C Price Control Financial Instrument and, therefore, as a constituent part of Special Condition 26 (Price Control Financial Model). It can be changed under section 11A of the Electricity Act 1989 or certain modifications can be made under Special Condition 26 (Price Control Financial Model) in accordance with that condition.

2.24 If an error of functionality is discovered in the Sizewell C PCFM, the procedure in Special Condition 26 (Price Control Financial Model) for modifications to the Sizewell C Price Control Financial Instruments will be followed.

Calculation of Allowed Revenue

2.25 The Sizewell C PCFM will be used for the purpose of determining the value of Allowed Revenue for the duration of the regulatory period.

2.26 In determining the value of Allowed Revenue, the licensee must use the latest version of the Sizewell C PCFM published on the Authority's Website.

2.27 The licensee must update the PCFM Variable Values at least annually, in accordance with the Special Condition 26 (Price Control Financial Model).

2.28 The input may include provisional values for variables that are unknown at the time of submission. If a Variable Value is unknown, the licensee must calculate a provisional value using the specified approach and provide their best estimate. Forecasts, while not as accurate as actual data, are expected to reduce the magnitude of any subsequent adjustments and decrease revenue volatility. All forecast values should be stated in 2024/25 prices unless otherwise specified.

2.29 The licensee must not make any other modifications to the Sizewell C PCFM beyond the removal of those input sheets which are not relevant to the licensee.

2.30 The licensee must, if it is uncertain of the correct way to calculate a PCFM Variable Value, seek advice from Ofgem.

2.31 Where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value or data required for that value, Ofgem will consult on an alternative approach. If the consultation is not completed in time to determine a revised value for the publication of the Sizewell C PCFM in accordance with Part B (Modification of the Price Control Financial Model) of Special Condition 26 (Price Control Financial Model), Ofgem will agree an interim approach with licensee (e.g. using the value from the most recently available publication or an alternate input agreed to by Ofgem) to ensure a timely PCFM publication. Any such interim approach for a given Charging Year will be revised in the subsequent Charging Year.

2.32 The Authority may direct change of the "publication date" on the "Cover" sheet of the Sizewell C PCFM. The following is file naming convention:

Sizewell C PCFM YYYYMMDD

where:

YYYYMMDD means the year, month, and day the Sizewell C PCFM was published.

The Sizewell C Price Control Financial Model Working Group

2.33 Ofgem will invite the nuclear licensee to participate in a working group to review issues arising with respect to the form or usage of the Sizewell C PCFM. The terms of reference for The PCFM Working Group ('The Working Group') are set out below.

Terms of reference

2.34 The purposes of The Working Group are:

a) to review the ongoing effectiveness of the Sizewell C PCFM in producing a value for Allowed Revenue and capturing financial performance data for each Charging Year;

b) to provide, when requested by Ofgem, its views on the impact of any proposed modifications on the Sizewell C PCFM; and

c) to provide such views or recommendations to Ofgem with regard to the Sizewell C PCFM (including as to proposals to modify the Sizewell C PCFM) as it sees fit.

Composition

2.35 The composition of The Working Group will be:

a) Ofgem (Chair);

b) Ofgem (Secretary); and

c) Two representatives from the nuclear licensee.

Timing and duration of The Working Group's work

2.36 The working group will initially run from Licence Modification until the nuclear licensee achieves commercial operations (COD).

2.37 The working group will meet at least once between 1 January and 1 April during each calendar year, but may meet more frequently if required, in relation to the provision of views on the impact of any licence modifications (see paragraph 2.34b).

2.38 In convening any meeting of The Working Group, Ofgem will give at least 10 working days' notice of the proposed meeting date to the nuclear licensee.

2.39 Representatives may attend meetings in person or online.

2.40 A meeting of The Working Group will be quorate, for the purpose of expressing a view or recommendation in respect of the Sizewell C PCFM, with at least one representative from Ofgem, and at least one representative from the nuclear licensee.

Resources

2.41 Meeting facilities will be provided or coordinated by Ofgem. Ofgem will keep notes of key points of discussion and views expressed at meetings, and of any recommendations made by The Working Group with respect to the Sizewell C PCFM.

2.42 A copy of the record of each meeting will be provided to the nuclear licensee as soon as is reasonably practicable and to representatives who attended the meeting, and Ofgem will take account of any comments received in finalising the record.

Dry Run(s) Process

2.43 The process of confirming and amending values will normally take place over a number of months from 31st July to December and will be iterative to account for updates to the Variable Values as they become known.

2.44 In order to reduce the risk of errors or issues in the computation of Allowed Revenue, we will facilitate a process of one or more dry runs of the Sizewell C PCFM between the licensee's initial dry run submission on 31st July and the final dry run submission in November. The number of dry runs needed will depend on the number and timing of Variable Value updates required for the licensee in any particular Charging Year and the licensee is expected to engage constructively with the authority at a working level to facilitate this.

2.45 All the documents submitted as part of a dry run of the Annual Revenue Setting Process must be sent to the Authority through email or through a recognised file sharing service.

2.46 Ofgem will review the submitted Sizewell C PCFM and confirm whether this has been prepared in accordance with the Price Control Financial Handbook and the licence. Where values have not been prepared in accordance with the PCFH and licence, Ofgem will notify the licensee of any required amendments to such Variable Values, which the licensee must amend in a subsequent dry run. Where the Authority amends a Variable Value from an earlier licensee submission, either due to a licensee error or to reflect updates to a provisional value, it will notify the licensee and request a resubmission of the Sizewell C PCFM at the next available dry run.

2.47 The dry runs process will normally take place with the following timeline:

a) 31 July: The licensee must submit the Sizewell C PCFM with updated Variable Values and accompanying supporting files to the Authority (dry-run 1). Ofgem will then review and respond to this dry run, either confirming or amending the Variable Values, as appropriate.

b) 30 September: The licensee must submit a further Sizewell C PCFM with completed Variable Values table to the Authority (dry-run 2) to reflect any further updates since the first dry run. Ofgem will then review and respond to this dry run, either confirming or amending the Variable Values, as appropriate.

c) 1 November: The Authority will provide an update to the Ofgem-provided Variable Values and the underlying models used to calculate them (Cost, Volumes & Scheduling Workbook, Revenue Workbook, Regulatory Financial Performance Reporting (RFPR) and CDA Calculation Model). Following the provision of the Ofgem-determined Variable Values the licensee must, by the later of:

i. 1st November; or

ii. 7 working days after their receipt,

submit a further Sizewell C PCFM (dry-run 3) with an updated Variable Values table to the Authority, which should include the Ofgem-determined values.

d) 30 November: The annual revenue setting process will conclude.

PCFM Dry Run Commentary

2.48 During the dry run process, each submission of the Sizewell C PCFM to the Authority must be accompanied by supporting commentary as well as any applicable subsidiary models and underlying workings.

2.49 The purpose of the PCFM dry run commentary is to provide a useful narrative to summarise the updates that have been made to the PCFM Variable Values and the impact that these have had on the licensee's Allowed Revenue.

Structure of the commentary

2.50 The outline structure of the commentary is as follows:

a) Executive summary,

b) Updates to the PCFM Variable Values,

c) Impact on Allowed Revenue,

d) Statement on forecast data,

e) Data assurance statement,

f) Other relevant information.

2.51 The sections outlined above should contain sufficient detail such that the Authority would be able to re-perform the updates made since the last submitted version of the Sizewell C PCFM and arrive at the same value of Allowed Revenue.

2.52 The licensee must provide detail on the following areas at a minimum:

a) a summary of the updates the licensee has made to the PCFM Variable Values in the input sheet(s) since the most recent version of the PCFM published by the Licensee.

b) the source of the data used to update the PCFM Variable Values (i.e. Ofgem directions and Sizewell C RRP);

c) a description of the impact of the changes on Allowed Revenue and the key driver(s) of this impact ranked in order of materiality;

d) for any forecast data, the licensee should include a statement confirming that it has used its best estimate to ensure forecasts are reasonable in light of the information available at the time and that any significant changes to forecast values have suitable supporting statements;

e) a data assurance statement briefly setting out the assurance processes that the information in the commentary, the PCFM inputs sheet and any underlying input files are subject to; and,

f) any other information the licensee considers is appropriate to explain the Sizewell C PCFM submission.

Submission

2.53 The dry run commentary should reconcile with and refer to the Sizewell C PCFM submitted. Any narrative, tables or descriptions of changes in PCFM Variable Values and Allowed Revenue in the commentary should be clearly disaggregated by licensee. A full dry run commentary is required for the first dry run submission, comparing the submitted Sizewell C PCFM and Allowed Revenue value against the previously published version of the Sizewell C PCFM, provided by Ofgem for use in the Annual Revenue Setting Process.

2.54 For any subsequent dry runs, a detailed narrative will only be required for the PCFM Variable Values, which have been amended from the prior dry run.

2.55 Where appropriate, the licensee may cross-reference to other information that supports its submission. Any cross-referencing should clearly direct the Authority to the source data used e.g. through hyperlinks.

3. PCFM Input data

3.1 This section provides an overview of the material categories of the model input data that are present in the PCFM and provide a full list of the Variable Values (including the relevant Special Condition and Associated Documents, where relevant, for each).

3.2 The use of PCFM Variable Values consistently across the sectors we regulate streamline the operability of the regulatory regime and the Annual Revenue Setting process, by facilitating a process that allows licensees to directly provide their own data (or source from publicly available 3rd parties) a significant proportion of the data required to calculate their allowed revenue.

3.3 In this chapter we provide clear guidance for each Variable Value, in order to reflect the specific circumstances relevant to Sizewell C's economic regulatory regime. It includes an overview of the various categories of Variable Values, a table (Table 3.1) providing a description of each value, and cross-references to the relevant Special Condition(s) (where appropriate), as well as details of Associated Documents (where relevant).

Overview of PCFM Input data

3.4 Table 3.1 presents the Variable Values according to the different model input sheets. This section provides a high-level summary of the more significant types of model input data used in the PCFH.

Opex

3.5 During the Pre-PCR Phase, the licensee will be provided an allowance for operational expenditure. The licensee will be responsible for managing its operational expenditure in accordance with Special Condition 37 (Opex Building Block). A detailed list of the expenditure categorised as Opex during the Pre-PCR phase can be found under the definition for Allowable Operational Spend within (Part B Definitions) of special condition 1 (Interpretation and Definitions).

Capex

3.6 The licensee is responsible for managing its capital expenditure during the Pre-PCR Phase in accordance with Special Condition 28 (Capex Incentive Building Block). A detailed list of the expenditure categorised as Capex during the Pre-PCR Phase can be found under the definition for Allowable Capital

Spend within Part B (Definitions) of special condition 1 (Interpretation and Definitions).

Totex allowance

3.7 The licensee may incur certain costs in the operation and maintenance of the Regulated Assets or Regulated Business. During the operational phase, Ofgem will provide allowances for these costs using a Totex framework.

3.8 The first calculation of Allowed Revenue that includes the Totex Building Block will take place at PCR. We will consult and engage with the licensee on the definition of totex at that time. However, we broadly expect these costs to include:

a) Fuel costs;

b) O&M baseline costs;

c) O&M outage-related costs;

d) Refurbishments;

e) Insurance;

f) ISFS Capex;

g) ISFS Opex; and

h) Other fees and charges not included within 'Pass-Through Costs'.

3.9 At the PCR and at each periodic review, the licensee will provide forecasts for the total totex expenditure for the upcoming Price Control Period. In advance of the PCR and at each periodic review we will consult on the full list of allowed and excluded project expenditure, however for the purposes of providing forecast or estimated values, this should exclude the following elements:

a) costs relating to De Minimis Business activities as defined in Special Condition 1 (Interpretation and Definitions) (under the definition for De Minimis Business) of the Licence;

b) the non-cash element of any current service pension costs charged to the income statement in accordance with accounting standards;

c) statutory or regulatory depreciation and amortisation;

d) profit margins from related parties (except where permitted);

e) costs relating to rebranding a company's assets or vehicles following a change of trading name or logo;

f) compensation payments made in relation to standards of performance;

g) bad debt costs and recoveries (which will be subject to separate review);

h) costs reported other than on a normal accruals basis, except where this is explicitly requested from the licensee;

i) costs relating to pass-through items;

j) interest, other financing and corporation tax costs;

k) any power buyback costs;

l) costs that fall within categories of expenditure that are covered by the FDP Allowance Building Block; and

m) Other fees and charges that fall within categories of expenditure covered by the Pass-Through building block;

3.10 These types of Variable Values are used in the Totex Building Block to determine the amounts that should, subject to the Totex Capitalisation Rate for the licensee, be processed as:

a) Non-Capitalised Totex Incentive: flowing directly into the Calculated Revenue (R_t) figure for the Charging Year to which the amount relates; and

b) Annual Capitalised Totex: addition to the licensee's RAB in the Charging Year to which the amount relates, contributing indirectly to Calculated Revenue (R_t) through the Return on Capital (RoC_t) and depreciation ($Depn_t$) over multiple Charging Years.

Social Benefits and Communications Costs Allowance

3.11 The Social Benefits and Communications Costs Building Block represents the licensee's allowance in respect of Allowable Social Benefits and Communications Costs for each Charging Year during the Pre-PCR Phase. This allowance is a direct contributor to the annual Calculated Revenue (R_t), in accordance with Special Condition 30 (Allowed Revenue during the Pre-PCR Phase).

Cost of Debt Adjustment

3.12 The Cost of Debt Adjustment Building Block is applicable during the Pre-PCR Phase and is the licensee obligations to managing its cost of debt. This cost is a direct contributor to the annual Calculated Revenue (R_t), in accordance with Special Condition 30 (Allowed Revenue during the Pre-PCR Phase).

Additional Return on Capital

3.13 The Additional Return on Capital building block provided in the case where Additional Allowable Spend is incurred above the Higher Regulatory Threshold during the Pre-PCR Phase. This return is a direct contributor to the annual Calculated Revenue (R_t), in accordance with Special Condition 30 (Allowed Revenue during the Pre-PCR Phase).

Funded Decommissioning Programme

3.14 The Funded Decommissioning Programme (FDP) building block as set out in Special Condition 34 (FDP Allowance Building Block during the Pre-PCR Phase) and Special Condition 51 (FDP Allowance Building Block during the Operations Phase) sets out how the FDP allowance building block is calculated during the regulatory regime. The FDP building block is a direct contributor to the annual Calculated Revenue (R_t).

Incentive Adjustments

3.15 There are types of Variable Value incentives which are only applied during the Pre-PCR Phase and there are incentives that are only applied during the operational phase. The incentive which contributes directly to calculated revenue are:

a) Construction Phase:

   i. Opex Building Block.

b) Operations Phase:

   i. Market Price Adjustment;

   ii. Availability Incentive; and

   iii. Totex Building Block (non-capitalised portion).

3.16 The incentives which indirectly adjust calculated revenue as they are RAB adjustments are:

a) Pre-PCR Phase:

   i. Capex Incentive; and

   ii. Capacity Incentive;

b) Post-PCR Phase:

i. Through life capacity incentive; and

ii. Capitalised portion of Totex Spend.

3.17 During the Pre-PCR phase, incentive adjustments may comprise of:

a) Capex Incentive is a RAB adjustment based incentive to reflect the sharing of overspend or savings of Actual Allowable Capital Spend (ACI) as compared to the Lower Regulatory Threshold. It is calculated in accordance with Part D (Calculation of the Capex Incentive) of Special Condition 28 (Capex Incentive Building Block).

b) Opex Incentive is applied in respect of any overspend or underspend relative to the Pre-PCR Opex Allowance, calculated in accordance with Part D (Determining the Opex Incentive) of Special Condition 37 (Opex Building Block).

c) Capacity Incentive is a RAB adjustment based incentive designed to incentivise the licensee to optimise plant capacity. When applied at the PCR, it will indirectly affect the licensee's calculated revenue by an adjustment to the RAB balance for that charging year. The Capacity Incentive is calculated in accordance with Special Condition 29 (PCR Capacity Incentive).

3.18 During the Operation Phase, incentive adjustments are applied through:

a) Availability incentive is calculated in accordance with Special Condition 57 (Availability Incentive). It is designed to incentivise the licensee to safely optimise their generating availability during the operational phase.

b) Totex Incentive is an adjustment to the licensee's calculated revenue to reflect performance with respect to any underspend or overspend relative to the Totex Allowance. It is calculated in accordance with paragraph 12 of Special Condition 54 (Totex Building Block).

c) Market Price Adjustment is designed to incentivise the licensee to capture or beat a relevant market reference price for the sale of electricity during the operational phase. It is calculated in accordance with special condition 55 (Market Price Adjustment Building Block).

d) Through Life Capacity incentive is a RAB adjustment based incentive designed to incentivise the licensee to optimise their plant capacity for the duration of the operational lifetime of the plant. It is calculated in accordance with special condition 47 (Through Life Capacity Incentive).

Tax Allowance

3.19 Tax allowance (see section 5) is a type of Variable Value relates to taxation of the licensee and contributes indirectly to Calculated Revenue (R_t) or, in the case of $TAXA_t$, flows directly into Calculated Revenue (R_t).

Inflation Inputs

3.20 The Sizewell C PCFM contains the following PCFM Variable Values relating to the price index:

a) OBR Forecast;

b) CPIH + forecast;

c) Price conversion factor; and

d) CPIH OBR long-term forecast.

3.21 These inputs provide for the model to be able to calculate PI_t as well as a forecast in accordance with the methodology below.

List of PCFM Variable Values

Table 3.1: List of PCFM Variable Values in each input sheet, split by PCFM input sheet

Scenario_TD

Variable Values: AC_t

PCFM subheading: Actual Capacity

Special condition: 29.11/47.15

Variable Values: $H1_T$

PCFM subheading: H1 target generation

Special condition: N/A

Variable Values: $H2_T$

PCFM subheading: H2 target generation

Special condition: N/A

Variable Values: $BMRP_t$

PCFM subheading: Market price

Special condition: N/A

Variable Values: $Price_{achieved}$

PCFM subheading: Actual electricity revenue sensitivity

Special condition: N/A

Variable Values: CDA_t

PCFM subheading: CDA outturn

Special condition: 39.4

FinancialInputs

Variable Values: $OBR_{forecast}$

PCFM subheading: OBR forecast

Special condition: N/A

Variable Values: $CPIH_{t,+forecast}$

PCFM subheading: CPIH + forecast

Special condition: N/A

Variable Values: $CPIH_{longterm}$

PCFM subheading: CPIH OBR long-term forecast

Special condition: N/A

Variable Values: CT_t

PCFM subheading: Tax allowance

Special condition: N/A

Variable Values: GCA_t

PCFM subheading: Tax allowance

Special condition: N/A

Variable Values: $SRCA_t$

PCFM subheading: Tax allowance

Special condition: N/A

Variable Values: $SBCA_t$

PCFM subheading: Tax allowance

Special condition: N/A

Variable Values: $DRCA_t$

PCFM subheading: Tax allowance

Special condition: N/A

Variable Values: CAP_{Max}

PCFM subheading: Financial inputs

Special condition: N/A

Variable Values: Dis_n

PCFM subheading: Financial inputs

Special condition: 9

Variable Values: IP_n

PCFM subheading: Financial inputs

Special condition: 27.30 / 46.21

Variable Values: Dis_t

PCFM subheading: Financial inputs

Special condition: 9

Variable Values: FSR_t

PCFM subheading: Financial inputs

Special condition: 25 Part D

Variable Values: CC_t

PCFM subheading: Generation & liquidity support

Special condition: 57.14

Expenditure

Variable Values: FDP_t

PCFM subheading: Funded decommissioning programme

Special condition: 34.3 / 51.3

Variable Values: $SBCA_t$

PCFM subheading: Other costs

Special condition: 38.3

Variable Values: $SBCR_t$

PCFM subheading: Other costs

Special condition: 38.3

Finance&Tax

Variable Values: $Fee_{success}$

PCFM subheading: RAB Additions not in scope of corporation tax regime

Special condition: N/A

Variable Values: $Fee_{royalty}$

PCFM subheading: RAB Additions not in scope of corporation tax regime

Special condition: N/A

Variable Values: $Amort_t$

PCFM subheading: Fuel cost accounting

Special condition: N/A

Variable Values: $FDP_{Asset\ acc}$

PCFM subheading: Tax base

Special condition: N/A

Variable Values: FDP_{Reval}

PCFM subheading: Tax base

Special condition: N/A

Variable Values: FDP_{Mov}

PCFM subheading: Tax base

Special condition: N/A

Variable Values: WC_{fuel}

PCFM subheading: Tax base

Special condition: N/A

Variable Values: $Int_{receivable}$

PCFM subheading: Tax base

Special condition: N/A

4. Calculation of WACC and Cost of Debt Adjustment

4.1 This section provides an overview of the financial and regulatory mechanisms that calculate the value of Return on Capital building block and Cost of Debt Adjustment.

WACC

4.1 The regulatory regime is split into two distinct phases for the purposes of determining the WACC:

a) During the construction and commissioning phases, the initial WACC (IWACC as defined in Special Condition 1 (Interpretation and Definitions)), will be set by the Secretary of State prior to the commencement of the regulatory regime; and

b) During the post construction review at each periodic review, the Regulatory WACC (RWACC) will be determined by Ofgem and will apply during the operational phase.

4.2 The licensee's Calculated Revenue (Rt) covers the return of capital for the Generation Company and calculated as a return percentage on the RAB.

4.3 Under the Electricity Generation Licence, the notional gearing percentage is fixed for the duration of the Pre-PCR Phase.

4.4 The methodology for calculating the RWACC (as defined in Special Condition 1 (Interpretation and Definitions)) will be determined by Ofgem during the Post Construction Review, in line with our economic guidance.

Cost of Debt Adjustment

4.5 Details about the Cost of Debt Adjustment Building Block can be found in Special Condition 39 (Cost of Debt Adjustment Building Block) of the Electricity Generation Licence.

4.6 The CDA mechanism provides an adjustment to the annual Allowed Revenue based on the difference between the Cost of Debt allowed through the IWACC and the actual Cost of CDA Debt.

4.7 The value of the CDA building block is calculated by the licensee using the CDA model, which provides an input to the Sizewell C PCFM which is used for the calculation of the annual Allowed Revenue. The licensee is required to operate the CDA model, and any associated relevant guidance documentation.

5. Tax liability allowances

5.1 The Sizewell C PCFM calculates a licensee's tax liability allowance on a notional basis (i.e. as a stand-alone entity) using, among other inputs, corporation tax rates and capital allowance writing down rates. Where rate changes are announced, these can be reflected in the Sizewell C PCFM by updating the PCFM Variable Values for these rates (CT_t, GCA_t, $SRCA_t$, $SBCA_t$ and $DRCA_t$) ahead of each year's Allowed Revenue.

5.2 There are a number of relevant policy choices that may alter Sizewell C's tax allowance:

a) The Sizewell C PCFM also calculates a tax clawback adjustment where a licensee's gearing (calculated using the Adjusted Net Debt Variable Value (AND_t) and the closing RAB position uplifted to Charging Year-end nominal prices in the Sizewell C PCFM) is greater than the notional gearing level and where its tax deductible net interest costs ($TDNI_t$) exceed the notional modelled interest costs, the tax benefit derived from its higher tax-deductible interest costs may be returned to consumers through an adjustment in the subsequent years Allowed Revenue calculated by the Sizewell C PCFM; and

b) Tax liability allowances are also dependent on Tax trigger events (TTE), which alter a licensee's notional tax liability to reflect changes in existing legislation, case law, accounting standards and HM Revenue & Customs (HMRC) policy.

5.3 There are other Variable Values that may adjust Sizewell C's tax allowance, including:

a) Tax allowance adjustment mechanism ($TAXA_t$) – this mechanism enables the Authority to direct an adjustment to the Calculated Tax Allowance following a tax review and having consulted with the licensee; and

b) Capital allowances: allocation rates – the Sizewell C PCFM contains the rates that are used to allocate totex to each of the modelled capital allowance pools.

5.4 Tax-related PCFM Variable Values (with the exception of the Tax Allowance adjustment term, $TAXA_t$) feed into the Tax Allowance term (TAX_t). Both the TAX_t and $TAXA_t$ sum to the term Tax_t, as set out in Special Condition 33 (Tax Building Block during the Pre-PCR Phase).

5.5 The approach to determining or revising the PCFM Variable Values and/or the calculation in the Sizewell C PCFM are described further below.

5.6 It should be noted that underlying tax liability allowances for the licensee within the Sizewell C PCFM may also change because of other PCFM Variable Values, such as changes in allowed totex. However, these changes are distinct from the specific adjustments to tax liability allowances discussed in this chapter.

5.7 Any recalculation of the licensee's tax liability allowances necessarily includes an iterative modelling aspect because an increased allowance gives rise to an increased liability which requires an increased allowance and so on. The effect can be either positive or negative. This 'tax allowance on tax allowance' issue is dealt with by the functionality within the Sizewell C PCFM and is factored into the calculation of the overall Tax Allowance.

Deferral of taxable revenue

5.8 The licensee may, via the PCFM Variable Values, notify Ofgem that for the purposes of calculating its tax allowance, it is deferring taxable revenue.

5.9 Where there are material differences between the profiling and recognition of taxable revenue compared to regulatory allowed revenue, it must provide a justification that its approach provides a reasonable reflection of the changes made to ensure the profile of the tax allowance reflects the profile of the underlying payments of corporation tax.

Regulatory tax losses

5.10 In some instances, the approach to calculating tax liability allowances could imply that the licensee could receive a negative allowance. In such cases, the price control treatment is to model a zero allowance and to record the tax loss arising as a 'regulatory tax loss' balance, to be deducted from the total taxable profits before the tax is calculated for any tax liability allowances that would otherwise be allocated to the Charging Year concerned or later Charging Years. The regulatory tax loss balance attributable to each Charging Year (together with a running total) is held within the Sizewell C PCFM.

5.11 For the avoidance of doubt, regulatory tax losses are not carried back and offset against tax liability allowances for Charging Years earlier than the Charging Year to which the regulatory tax loss concerned is attributable.

5.12 Any surrender by a licensee of losses to a group company will not be reflected within the regulatory loss balance and similarly for consortium relief as set out in HMRC's Company Taxation Manual.

Group tax arrangements

5.13 For the purposes of the approach set out in the tax trigger event and tax review sections of this chapter, tax liabilities, allowances and trigger events are considered on a notional 'licensee business' basis. Consequently, the following are disregarded in the assessment of tax liabilities and allowances for price control purposes:

a) the claim or surrender of group tax relief (including consortium relief);

b) interest payments (including any coupons on debt instruments or preference share dividends) and receipts that are not tax deductible or chargeable under HMRC rules for the purposes of computing the licensee's taxable profits, including but not limited to adjustments for transfer pricing and the 'Corporate Interest Restriction Rules'; and

c) any other adjustments required in appendix 1 to Ofgem's open letter dated 31 July 2009 (Claw-back of tax benefit due to excess gearing).

5.14 For the purposes of the approach set out in the tax clawback section of this chapter, levels of debt, interest and gearing are considered at licensee level, as opposed to any other level with respect to the corporate or ownership group of which the licensee is a member.

Accounting framework

5.15 For the purposes of the approach set out in the tax trigger event and tax review sections of this chapter, the accounting framework to be applied by the licensee for the purpose of computing tax liabilities is either:

a) EU-IFRS (HMRC's Company Taxation Manual), if adopted for use by the licensee;

b) Financial Reporting Standard 101, EU adopted IFRS with reduced disclosures; or

c) UK GAAP under Financial Reporting Standard 102.

Tax trigger events

5.16 The Sizewell C PCFM allows for changes to a licensee's tax liability allowance, through Tax Trigger Events, for factors exogenous to the licensee, its owners or controllers that cause a change in its notional tax liabilities (The tax liability, which would be modelled if the event were taken into account) for one or more Charging Years. These factors exclude changes to the corporation tax rate and writing down allowance rates, which are accounted for with the PCFM Variable Values (CT_t, GCA_t, $SRCA_t$, $SBCA_t$ and $DRCA_t$), but include:

a) changes to applicable legislation;

b) the setting of legal precedents through case law;

c) changes to HMRC interpretation of legislation; and

d) changes in accounting standards.

Notification of tax trigger events

5.17 The licensee must notify Ofgem on or before 30 September in each Charging Year t-1 of all the tax trigger events that it has become aware of by that time, except those that have been previously notified. This requirement applies equally to events that could be expected to increase or reduce the licensee's tax liability allowances. For the purposes of complying with this requirement, the licensee must seek to ensure that it identifies and records tax trigger events.

5.18 If the licensee fails to notify Ofgem of any tax trigger events of which it becomes aware, or should be aware, then subject to the licensee demonstrating that it uses reasonable endeavours to identify all tax trigger events, this may not be considered a breach of its requirements under the PCFH. We will consider each tax trigger event on its merits on a case-by-case basis.

5.19 The notification in respect of each tax trigger event should include:

a) a description of the tax trigger event;

b) the changes in tax liability allowances that the tax trigger event is considered to have caused and the Charging Years to which they relate;

c) the calculations (including all relevant parameters and values) that the licensee used to arrive at the amounts referred to in subparagraph (b) – in performing these calculations the licensee should include a 'tax allowance on tax allowance' factor as explained in paragraph 5.7 but should ignore the tax trigger deadband;

d) any relevant information provided by HMRC in relation to the tax trigger event;

e) evidence of mitigating measures that the licensee has taken to minimise any additional liabilities arising from the tax trigger event; and

f) comments from the licensee on:

   i. the relevance of the tax trigger event to its tax position;

   ii. whether grounds exist to contest the applicability of the tax trigger event to the licensee; and

   iii. the reporting treatment the licensee expects to apply in its tax submissions to HMRC and in its Regulatory Accounts or statutory accounts where Regulatory Accounts are not prepared.

5.20 The licensee's notification should also state whether it considers that the materiality threshold (see paragraph 5.28) has been exceeded for the Charging Year(s) concerned, taking into account the total net amount of tax liability changes (upward and downward) included in the current notification and any previous notifications.

5.21 Ofgem will review any notifications by the licensee under paragraph 5.17 and may ask the licensee:

a) for additional information in respect of one or more of the notified events; and/or

b) to submit the results of agreed upon audit procedures specified by Ofgem and carried out by the licensee's Appropriate Auditor, to assist in confirming the appropriateness and accuracy of the licensee's calculations.

5.22 By the conclusion of the annual revenue setting process in the same Charging Year t-1 inform the licensee whether, in respect of each tax trigger event, it has:

a) agreed (on a provisional or confirmed basis) the change in tax liabilities figure calculated by the licensee;

b) determined (on a provisional or confirmed basis) a different change in the tax liabilities figure from that calculated by the licensee; or

c) decided that consideration of any change in tax liabilities should be deferred until further/better information is available.

5.23 In deciding which of the actions set out in paragraph 5.22 should be taken, Ofgem will consider whether the licensee has conclusively agreed its tax liabilities for the Charging Year concerned with HMRC. Where there has been a provisional agreement/determination or a deferral of consideration, the TTE values concerned will be subject to further revision in a later Charging Year.

5.24 Where Ofgem decides to use a different change in the tax liabilities figure from that calculated by the licensee or decides that consideration of any change in tax liabilities should be deferred, it will set out its reasons and/or calculations. The licensee has the right to reply setting out its objections, which Ofgem will consider.

5.25 Ofgem will also by 31 October in each Charging Year t-1 notify the licensee of any tax trigger events that it proposes to take into account that have not been included in a notification sent to Ofgem by the licensee. The licensee has the right to reply setting out its objections, which Ofgem will consider.

5.26 If Ofgem has not finished considering any matters raised by the licensee under paragraph 5.24 or paragraph 5.25 before notifying the licensee of tax trigger events that it proposed to take into account, the Authority will through business correspondence, apprise the licensee of any provisionality it has applied in determining the revised TTE values that it proposes to apply, that might entail a further revision to those values in the next Charging Year.

5.27 Where a tax trigger event changes the allocation of allowable expenditure into different statutory capital allowance pools, the applicable allocation and allowance rates will be adjusted to take into account the new expected allocation basis from the effective date of the new requirement. Ofgem will work with licensees to agree the financial effect of revised tax pool allocation requirements where these are not straightforward.

Materiality threshold and 'deadband'

5.28 A materiality threshold is applied to tax trigger events during the Price Control Period and a £m threshold amount for each Charging Year is included among the tax trigger deadband values on the 'Finance & tax' worksheet (Tax trigger calculations section) for the licensee in the Sizewell C PCFM.

5.29 The calibration of the materiality threshold and deadbands for the Sizewell C PCFM during the Pre-PCR phase is based on the materiality threshold of the similar thresholds in the networks sector. We expect to consult on the appropriate calibration of this level at the PCR review for the Operations Phase.

5.30 A change to the licensee's notional tax liability allowance for a particular Charging Year is only applied where one or more trigger events would result in a tax liability allowance change for that Charging Year whose absolute value is greater than the threshold amount. Furthermore, any change to the tax liability allowance (upward or downward) is limited to the amount that is in excess of the threshold amount for the Charging Year concerned. Additionally, tax trigger events will only be taken into account for the purposes of increasing the licensee's tax liability allowances where the licensee has demonstrably used its reasonable endeavours to minimise any increase in its tax liabilities.

5.31 Where the change to the licensee's tax liability allowance for a particular Charging Year is below the threshold, subsequent tax trigger events, relating back to that Charging Year, could cause the threshold amount to be exceeded. In that case, a change to the licensee's tax liability allowance for the Charging Year concerned (a revised TTE value) would be determined once the threshold had been exceeded.

5.32 For the avoidance of doubt, a regulatory tax loss figure attributable to a particular Charging Year is not taken into account for the purposes of deciding whether the threshold amount has been exceeded for that Charging Year.

Logging of trigger events

5.33 Ofgem will keep a log of tax trigger events that have been subject to notifications by it or by the licensee showing for each tax trigger event:

a) a description of the event;

b) the name of the party who notified the event (Ofgem or licensee);

c) the date of notification;

d) the amount of any change in the licensee's tax liabilities that has been determined; and

e) details of any tax trigger events for which a determination is in abeyance and a description of the outstanding actions to be taken.

Tax review

5.34 At the outset of the Price Control Period, the value of $TAXA_t$ will set at zero for the duration of the Price Control Period. Under Special Condition 33 (Tax Building Block during the Pre-PCR Phase), the licensee's Calculated Tax Allowance can be updated for any periods on or after 1 April 2023 following a tax review. The Authority may consider initiating a tax review if one or more of the events described below occurs.

Potential tax review trigger events

5.35 The Authority may consider triggering a tax review for the relevant licensee(s) in the following scenarios:

a) if there are material, unexplained differences between the Calculated Tax Allowance and Actual Corporation Tax Liability, which have not been adequately explained in the supporting commentary to the reconciliation (The reconciliation referred to is the Tax Reconciliation template reconciling the notional tax allowance per the Sizewell C PCFM and actual tax liability per their latest CT600 forms. This template forms part of the licensee's annual Sizewell C PCFM submissions);

b) if Ofgem is notified in writing by a licensee or stakeholder of any event that the licensee or stakeholder considers will have a material, unexplained impact on the licensee's Actual Corporation Tax Liability; or

c) if a licensee undergoes a material change in circumstances, e.g. a change in ownership, that is likely to have a material, unexplained effect on its actual tax liability.

d) if we become aware of circumstances which lead us to believe an efficient notional company would make materially different choices with respect to the reliefs and allowances available to it, to those assumed the calculation of the tax allowance assumed in the PCFM.

Materiality

5.36 Under paragraph 5.35, an unexplained difference between the Calculated Tax Allowance and Actual Corporation Tax Liability will be subject to the same materiality threshold that is applied to tax trigger events during the Price Control Period as described in paragraph 5.28 of this handbook. For the avoidance of doubt, an unexplained difference is considered material if it exceeds the threshold described.

5.37 Where there are numerous unexplained differences in the submitted Tax Reconciliation which are individually immaterial but when taken in aggregate are greater than the materiality threshold amount, the licensee is required to provide supporting explanation(s) in the commentary to the Tax Reconciliation.

Notifying the Authority

5.38 Any notification by the licensee under paragraph 5.35(b) must be made in writing to the Authority on or before 31 July in respect of the Charging Year two years prior and include statements setting out:

a) the reason for the notification including a description of the specific event(s) that the licensee considers will have an impact on its Actual Corporation Tax Liability;

b) the impact of the specific event(s) on the licensee's Actual Corporation Tax Liability and whether it is considered material;

c) the Charging Year(s) that the licensee considers will be affected by the tax review trigger event;

d) a calculation and the basis of the calculation for any proposed adjustments to the value of the $TAXA_t$ term; and

e) supporting evidence including any relevant information or correspondence received from HMRC and any other information that the licensee considers is relevant.

5.39 Any notification by other stakeholders under paragraph 5.35(b) must be made in writing to the Authority on or before 31 July in respect of the Charging Year two years prior and must include as much information as is available to the stakeholder in line with the criteria set out in paragraph 5.38. Where there are gaps in the information provided by the relevant stakeholder, Ofgem will engage with the applicable licensee to ascertain whether the licensee itself should submit a notification under paragraph 5.35b).

5.40 Where Ofgem receives a notification from any stakeholder after 31 July in any Charging Year and an adjustment is made following the process outlined in paragraphs 5.42 to 5.50, that adjustment will be made in the subsequent Charging Year following the direction of the $TAXA_t$ term. In such a case, the functionality of the PCFM means that a Time Value of Money Adjustment will be applied.

5.41 If an adjustment is made to the $TAXA_t$ term for a period prior to the Charging Year in which the tax review is triggered, any resultant changes to Allowed Revenue will, subject to a Time Value of Money Adjustment, be brought forward. For the avoidance of doubt, such an adjustment will not have any retrospective effect on a previously published value of Allowed Revenue.

Preliminary assessment

5.42 Where one or more of the tax trigger events set out in paragraph 5.35 occur, Ofgem will perform a preliminary assessment before deciding whether to undertake a tax review.

5.43 This preliminary assessment may involve the Authority requesting further information from the affected licensee(s) and from the stakeholder who submitted the notification under paragraph 5.35b) and explaining that it is considering undertaking a tax review.

Review process

5.44 If the preliminary information requested does not suitably address the concerns raised, Ofgem may undertake a formal tax review, for which it will procure, at the licensee's expense, a review by an Appropriately Qualified Independent Examiner.

5.45 Ofgem will notify the licensee or licensees affected in accordance with Special Condition 33 (Tax Building Block during the Pre-PCR Phase) that it intends to commence the review.

5.46 Throughout the course of the tax review, the licensee will have opportunities to comment on the examiner’s findings and engage with both the Appropriately Qualified Independent Examiner and Ofgem before the final report is submitted by the examiner to Ofgem.

After the review

5.47 Following the tax review, the Authority will consider the findings of the Appropriately Qualified Independent Examiner's report. Where the examiner's report confirms that a material, unexplained difference exists between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability, the Authority will direct that an adjustment be made to correct for the effect of the confirmed material, unexplained difference. The Authority will make a direction adjusting the tax allowance through the PCFM Variable Value $TAXA_t$

in accordance with Special Condition 33 (Tax Building Block during the Pre-PCR Phase).

5.48 Before making a direction, the Authority will consult on the proposed adjustment to $TAXA_t$ for no less than 28 days.

5.49 Where the Appropriately Qualified Independent Examiner's report contains information that is considered confidential or market sensitive, the licensee may request that this information be redacted from any publication. Information agreed in writing as being confidential by the Authority will be excluded from any publications.

5.50 The adjusted value will be reflected in the Sizewell C PCFM and will be published on the Authority's Website by 30 November in each Charging Year.

5.51 For the avoidance of doubt, there will be no duplication or double counting of adjustments between the TAXAt term and the other tax mechanisms that feed into the TAXt term.

Tax allowance methodology

5.52 Due to the size and complexity of the project, as the nuclear licensee commences operation, we expect to proactively review our approach to calculating the tax allowance as part of the annual revenue setting process to ensure that it continues to meet the efficient tax expenditure of the nuclear licensee.

5.53 In particular (and non-exhaustively), notwithstanding the other features of the regulatory regime (e.g. tax trigger events), we expect to review the following areas of our approach:

a) Areas in which other relevant projects have established precedent, or areas in which the licensee has received certainty on tax matters from HMRC.

b) Capital allowances, in particular, our assessment of the applicability of first year allowances for an efficient notional company.

c) The treatment of shareholder loans, in particular, in the event of a changes in ownership or changes in the treatment of shareholder loans by HMRC.

d) Decommissioning.

e) Corporate Interest Restriction.

f) Tax deductibility of Intangible assets, including the Know-how payment.

5.54 The nuclear licensee will be invited to engage with us through the PCFM working group and elsewhere, with a view to providing representations as part of the structured engagement process for our first Periodic Review.