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30th August 2013

Dear Paul

Consultation on modifications to the Price Control Financial Handbooks and Models

We welcome the opportunity to provide a response on the consultations to modify the Price Control Financial Handbooks and Models. This response is provided on behalf of National Grid, both as National Grid Gas plc (NGG) in its roles as owner and operator of the gas transmission system and owner of four gas distribution networks, and also National Grid Electricity Transmission plc (NGET). This response includes our comments both from a Transmission and Distribution perspective and so covers the models and Handbooks for both transmission businesses and the distribution business.

The Price Control Financial Models (PCFMs) reflect the positive engagement we have had with Ofgem including discussions of proposed modifications and a clear audit trail of the changes made. We are satisfied that the PCFM modifications are appropriate.

We are pleased that the Section 23(2) notices of the changes to the Gas Transmission and Gas Distribution Handbooks and PCFMs and the Section 11A(2) notice of changes to the Electricity Transmission Handbook and PCFM clearly identify the modifications to ensure that claw back adjustments to tax liability allowances will now include an iterative tax allowance on tax allowance factor.

This represents a minor change in policy compared to the position detailed in the Final Proposals and supporting documents (such as the July 2009 policy letter on this clawback referred to both in the Final Proposals and Financial Handbook). We agree that this change in policy better reflects the post-tax principles of the RIIO regime and believe that the change in policy has been correctly reflected in the updated PCFMs and Handbooks.

We have also been fully engaged in the process of updating the Financial Handbooks. Our detailed comments on the Electricity Transmission, Gas Transmission and Gas Distribution Handbooks are included in this response. While there are a large volume of comments they largely represent amendments to text to tidy up references or corrections for minor errors. They do not generally represent disagreements in principle.

Yours sincerely

[By e-mail]

Richard Allman
Regulatory Modelling & Reporting Manager
UK RIIO Delivery

Comments in relation to ET1 Financial Handbook

Respondent details	NGET	
No.	Page/Paragraph Ref	Comments
1	Page 1	The reference to "Opening Base Revenue Allowances" in bullet point (a) is incorrect. The Annual iteration Process does not update the Opening Base Revenue Allowances; these are now a fixed value. The term should be replaced with "Base Transmission Revenue"
2	Page 3	The links to the ET1 PCFMs need to be updated to the new PCFMs
3	1.2	The reference to "Opening Base Revenue Allowances" is incorrect. The Annual iteration Process does not make updates "to" the Opening Base Revenue Allowances; these are now a fixed value. It would be clearer to replace "Opening Base Revenue Allowances" with "recalculated base revenues" as this term is used elsewhere in the document. The less clear alternative would be to change the word "to" to "from" so the first sentence reads: "The ET1 Price Control Financial Model (PCFM) has been designed to calculate incremental changes from the licensee's Opening Base Revenue Allowances for each Relevant Year so that the updated base revenue allowances reflect the adjustment schemes specified in the licence and detailed in the methodologies in this Handbook."
4	1.8	The reference to "Opening Base Revenue Allowance" is incorrect. MOD does not adjust "Opening Base Revenue Allowance", it adjusts "Base Transmission Revenue" and the SO equivalent.
5	2.1	The reference to "Opening Base Revenue Allowance" is incorrect and should be replaced with "Base Transmission Revenue".
6	2.12	This example is not correct. For NGET, the generation connections revenue driver would result in adjustments to the Variable Values Table for t-2, t-3, t-4 and t-5. However this is different for the various TOs. Either the example needs to be corrected to reflect the complexity of this particular uncertainty mechanism or it may be easier to replace the example with the one in the GT Handbook.
7	3.5	The text "– ie the amounts are treated as 100 per cent fast money" should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE, APFE, SOEDE and SOAPFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.
8	Table 3.2 Item 8	In bullet (b) "for the Relevant Year" should be added to improve clarity: "Adjust for any disallowed costs for the Relevant Year arising from Ofgem's reasonableness review (DC)"
9	Table 3.2 Item 8	In the right hand column there is a " missing. "D ₂₀₁₃₋₁₄ should be "D ₂₀₁₃₋₁₄ "

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No.	Page/Paragraph Ref	Comments
10	Table 3.2 Item 9	<p>To be consistent with the definition of ED_{year} in item 8 of table 3.2 the words “(and also excluding, where relevant, any allowances for contingent asset costs)” should be added so the text reads:</p> <p>“Obtain the pre-existing EDE/SOEDE allowance excluding any true up adjustments in 2009-10 prices for each year (E_{year}) (and also excluding, where relevant, any allowances for contingent asset costs) for comparison to licensee’s actual deficit repair payment.”</p> <p>The lack of contingent cost allowances is not a reason to exclude these additional words, the proposed change is to ensure consistency within the document. It also has the benefit of better future proofing the document. Paragraph 3.25 is another example where contingent asset costs are already referred to.</p>
11	Table 3.2 Item 10	In the first sentence the allowance and payment should both be plural so an “s” has been added to each as shown below: “Obtain the difference between the pre-existing allowances and actual payments , and adjust for tax and the time value of money.”
12	Table 3.2 Item 10	In bullet point c the reference to “(1-CT _t)” should be “ (1-CT₂₀₁₅₋₁₆) ”
13	Table 3.2 Item 10	In the sentence below bullet (c) “Formula Year” should be “Relevant Year”
14	Table 3.2 Item 10	In the definition of CT_{year} , “Formula Year” should be “Relevant Year”
15	Table 3.2 Item 10	The word “Vanilla” should be added to the definition of $WACC_{year}$ so that it reads “is the Vanilla Weighted Average Cost of Capital attributable in the Relevant Year”. This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
16	Table 3.3 Item 8	In bullet (b) “for the Relevant Year” should be added to improve clarity and to be consistent with the GT Handbook: “Adjust for any disallowed costs for the Relevant Year arising from Ofgem’s reasonableness review (DC)”
17	Table 3.3 Item 8	The formula for $D_{2014-15}$ and the generic formula before it start with a superfluous “[“
18	Table 3.3 Item 8	The definition of DC_{year} should include the comment “in the Relevant Year” to read “is the value of disallowed costs in the Relevant Year arising from Ofgem’s relevant reasonableness review” This would make it consistent with Table 3.2 and be more correct.
19	Table 3.3 Item 9	<p>The format of “Eyear” needs to be corrected. Also, there is a surplus “in 2009-10 prices” and a few other minor amendments are required. The first paragraph should be amended to read:</p> <p>“Obtain the pre-existing EDE/SOEDE annual allowances for 2014-15 as set out in Final Proposals and for 2015-16 and 2016-17 as reset at 1 April 2015, (i.e. value C1 established at step 7 in table 3.2 above) in 2009-10 prices for each year (E_{year}), in each case excluding any true-up allowances and any contingent asset allowance amounts.”</p> <p>The reference to contingent asset allowances is included to be consistent with other parts of the chapter which reference these allowances / costs.</p>

Respondent details		
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20	Table 3.3 Item 10	In the first sentence there is a surplus “payments” which should be removed and the “allowance” in the first line should be “allowances”.
21	Table 3.3 Item 10	In bullet point a) “Formula Year” should be replaced with “Relevant Year”.
22	Table 3.3 Item 10	In bullet point a) “ $(1-CT_{year})$ ” should be “ (CT_{year}) ” to be consistent with Table 3.2 of the ET Handbook and the GT Handbook
23	Table 3.3 Item 10	In the definition of CT_{year} “Formula Year” should be replaced with “Relevant Year”.
24	Table 3.3 Item 10	The word “Vanilla” should be added to the definition of $WACC_{year}$ so that it reads “is the Vanilla Weighted Average Cost of Capital attributable in the Relevant Year”. This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
25	3.28	The words “and also excluding, where relevant, any contingent asset allowances” should be added for clarity, and to be consistent with other parts of the document, to make the sentence: “The adjustment contained in Row 11 of Table 3.3 deals with a situation where the licensee has previously paid across more, or less, than the allowance (EDE/SOEDE values excluding any true-ups and also excluding, where relevant, any contingent asset allowances) it was given for a particular Relevant Year”
26	3.32	In the first point (iii) in the section “Values to be directed by 30 November 2014”, to improve clarity “(in 2009-10 prices)” should be added so the text reads: “The aggregate price control allowance (in 2009-10 prices) for Pension Scheme Administration and PPF levy expenditure for that year set out in the relevant Final Proposals will be obtained, to which is added the annual adjustment threshold amount of £1m.”
27	3.32	In the second point (iii) (i.e. in the section “Values to be directed by 30 November 2017”), to improve clarity “(in 2009-10 prices)” and “each of” should be added so the text reads: “The aggregate price control allowance (in 2009-10 prices) for Pension Scheme Administration and PPF levy expenditure for each of those years set out in the Final Proposals as updated in step (vii) above by 30 November 2014 is obtained, to which is added the annual adjustment threshold amount of £1m.” The “each of” is added to clarify that the £1m threshold is an annual threshold amount as per the Final Proposals (Transmission Finance document para 5.31)

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28	3.32	<p>Also, under the “Values to be directed by 30 November 2017” heading, points (iv), (v) and (vi) should be amended to clarify that the £1m threshold is annual as per the Final Proposals (Transmission Finance document para 5.31). Revised text is shown below:</p> <p>“(iv) For each of the Relevant Years 2014-15, 2015-16 and 2016-17 for which the amount referred to in step (iii) is exceeded by the corresponding amount in step (ii), the excess amount only will be added to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)).</p> <p>(v) For each of the Relevant Years 2014-15, 2015-16 and 2016-17 for which the amount at (ii) is less than the corresponding amount at step (iii), no revision to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)) will be made.</p> <p>(vi) Any excess amounts at (iv) will be added to the pre-existing APFE and SOAPFE values for the relevant year or years to determine the revised APFE and SOAPFE values for Relevant Years 2014-15, 2015-16 and 2016-17.”</p>
29	3.34	<p>The text “and are treated as 100 per cent fast money” should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE, APFE, SOEDE and SOAPFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.</p>
30	4.3	<p>“base transmission revenue” should be capitalised as “Base Transmission Revenue” because it is a defined licence term.</p>

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No.	Page/Paragraph Ref	Comments
31	4.11	<p>We do not understand why this paragraph has been changed from the version in the previous draft of the Handbook. While the changes may not look significant the paragraph is now incorrect. The process described in the paragraph now needs to reference the fact that calculation would have to multiply by 1-CT. This is because the ‘implied negative tax allowance’ would always have included ‘tax on tax’ (as it is a tax allowance) and therefore to get back to the regulatory tax loss, multiplying by 1-CT is required.</p> <p>Using the new text, this can be achieved by replacing “grossed up with reference to the corporation tax rate for the licensee” with “multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee)”.</p> <p>The full text of the paragraph would then be: “In some instances, the approach to calculating tax liability allowances could imply that the licensee should receive a negative allowance. In such cases, the price control treatment is to model a zero allowance and add an amount to the ‘regulatory tax losses’ balance for the licensee held within the PCFM. The amount added is the implied negative tax allowance multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee). In tax modelling for subsequent years, regulatory tax losses are deducted from taxable profits when calculating tax allowances; this may extinguish the regulatory tax losses balance or leave amounts to be used in later calculations. The regulatory tax losses position may separately be affected (updated) by revisions to other PCFM Variable Values for Relevant Years earlier than Relevant Year t.”</p> <p>An alternative would be to reinstate the original paragraph</p> <p>“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’ figure, to be deducted from the taxable profits before the tax is calculated for any tax liability allowances which would otherwise be allocated to the year concerned or later years. The regulatory tax loss balance attributable to each Relevant Year (together with a running total) is held within the PCFM and regulatory tax losses are referred to where applicable in the methodologies in this Chapter.”</p>
32	4.16	There is a superfluous “,” after the “Where” at the beginning of this paragraph.

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33	4.21	<p>The word “liabilities” in the first sentence needs to be changed to “liability allowance” so it reads:</p> <p>“Where the change to the licensee’s tax liability allowance for a particular Relevant Year is below the threshold, subsequent tax trigger events, relating back to that Relevant Year could cause the threshold amount to be exceeded. In that case, a change to the licensee’s tax liability allowance for the Relevant Year concerned (a revised TTE/SOTTE value) would be determined once the threshold has been exceeded. Note that there is no retrospective adjustment to MOD terms already directed. Adjustments become component parts of future MOD calculations only.”</p> <p>It is not the change to liabilities that is relevant; it is the change to allowances.</p>
34	4.31	<p>Sub bullets (b) and (c) should clarify that the number being calculated is a tax allowance figure and, to be consistent with the revised PCFM and paragraph 4.7, that allowance already includes a tax on tax factor. We would therefore suggest replacing the current text with the following:</p> <p>“ (b) the change in tax liability allowances which the event is considered to cause and the Relevant Years to which they relate; (c) the calculations (including all relevant parameters and values) which the licensee used to arrive at the amounts referred to in sub-paragraph b). In performing these calculations the licensee should include a ‘tax allowance on tax allowance’ factor as explained in paragraph 4.7 but should ignore the tax trigger deadband which is adjusted for in paragraph 4.40;”</p>
35	4.40	<p>The instructions in this paragraph omit an important first step. The correct Relevant Year has to be selected using the PCFM year t selector on the User interface worksheet of the PCFM. If the user has not updated the Relevant Year (which will now be one year out if they have taken a duplicate of the previous model) then the Tax Trigger worksheet will not apply the input values entered on the Tax Trigger worksheet.</p> <p>To avoid changing the step references this step can be added to step (i) which would then read:</p> <p>“All of the other PCFM Variable Value revisions which have been determined for use in the prospective Annual Iteration Process (and which Ofgem expects to include in the notices of proposed Variable Value revisions to licensees) will be applied to the Variable Values Table. The correct Relevant Year will be selected using the PCFM year t selector on the User interface worksheet of the PCFM.”</p>

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36	4.40	<p>In step (viii) the text should be changed to clarify that the Type B value input must be the change to the tax liability allowances (not tax liabilities) including the iterative tax allowance on tax allowance factor. This is required to be consistent with the way the PCFM operates and paragraph 4.7.</p> <p>Paragraph to be amended to:</p> <p>“The aggregate changes to the licensee’s tax liability allowances determined in respect of all Type B trigger events (whether notified during Relevant Year t-1 or on an earlier occasion) will be input into the yellow input cells on the ‘Tax Trigger’ row of the ‘B event value’ section in the appropriate Relevant Year columns on the tax trigger worksheet. This value should include the iterative tax allowance on tax allowance factor referred to in paragraph 4.7.”</p>
37	4.40	<p>In step (x) we would suggest it be made clear that the allowance based on new inputs includes the Type A and Type B trigger events. The text should be amended to read:</p> <p>“The ‘tax allowance (pre-losses) before tax trigger’ referred to at step (iv) will be deducted from the ‘Tax allowance’ that has been calculated based on the new inputs (including both Type A and Type B trigger events).”</p>
38	4.40	In step (xii) “Formula year” needs to be replaced with “Relevant Year”
39	4.40	In step (xiii) the first reference to step (x) is incorrect; it should be (xi) as it is the absolute value of the adjustment that is compared to the deadband. See drafting suggestion below.

Respondent details		NGET																													
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40	4.40	<p>In step (xiii) the “multiplied by -1” should be removed from <u>both steps</u> as it is incorrect. Also, the existing text is confusing as you could interpret the “multiplied by -1” as applying to the whole equation or just the deadband. Either way, the text should be updated. This is best illustrated by an example:</p> <p>Step (xiii) sub bullet (i)</p> <table border="1"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>70</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>-20</td> </tr> <tr> <td>Amount is negative so sub bullet (i) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1</td> <td>-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17</td> </tr> <tr> <td>The correct adjustment would have been -17</td> <td>-20 + 3 = -17</td> </tr> </table> <p>Step (xiii) sub bullet (ii)</p> <table border="1"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>100</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>10</td> </tr> <tr> <td>Amount is positive so sub bullet (ii) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = 10 less the deadband multiplied by -1</td> <td>10 – (3x-1) = 10 – (-3) = 13 OR (10 – 3) x -1 = -7</td> </tr> <tr> <td>The correct adjustment would have been 7</td> <td>10 – 3 = 7</td> </tr> </table> <p>See drafting suggestion in next item</p>		Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	70	Result of step (x) (deduct old allowance from new calculation)	-20	Amount is negative so sub bullet (i) applies		Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1	-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17	The correct adjustment would have been -17	-20 + 3 = -17	Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	100	Result of step (x) (deduct old allowance from new calculation)	10	Amount is positive so sub bullet (ii) applies		Adjustment equals result of step (x) = 10 less the deadband multiplied by -1	10 – (3x-1) = 10 – (-3) = 13 OR (10 – 3) x -1 = -7	The correct adjustment would have been 7	10 – 3 = 7
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41	4.40 continued	<p>This paragraph should be amended to:</p> <p>“If the value calculated at step (xi) is greater than the deadband amount then:</p> <p>(i) if the amount obtained under step (x) is negative, the tax trigger adjustment is shown as that amount plus the deadband; or</p> <p>(ii) if the amount obtained under step (x) is positive, the tax trigger adjustment is shown as that amount minus the deadband amount.”</p>
42	4.42	In the “Notes on the tax trigger calculation”, “set out in 4.39” should say “set out in 4.40 ”
43	4.42	In the second bullet the reference to “step (xi)” should be to “step (xiii) ”
44	4.53	<p>The explanation of how year end prices are calculated is incorrect. The current text says</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Relevant Year t-2 and inflate to year-end prices for Relevant Year t-2, using the arithmetic average of the RPI data for March and April of Relevant Year t-2; and”</p> <p>March and April of year t-2 are actually 11 months apart. This should be March of t-2 and April of t-1 so the text should be revised to:</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Relevant Year t-2 and inflate to year-end prices for Relevant Year t-2, using the arithmetic average of the RPI data for March of Relevant Year t-2 and April of Relevant Year t-1; and”</p>
45	4.57	The words “for the purposes of tax liability allowances” should be deleted. The relevant interest numbers in the PCFM also include non-core interest costs which are not used to calculate tax liability allowances but are part of the comparison used in the positive benefit test (by virtue of not being excluded from the actual costs)
46	4.58	To make the paragraph consistent with the final sentence of the previous paragraph, this paragraph should start “ If the amount is zero or negative and therefore no positive tax benefit, the clawback is not triggered..... ”

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47	4.58	<p>The purpose of this adjustment is to claw back the tax benefit received as a result of incurring excess interest costs. This benefit will have been received at the statutory rate of corporation tax applicable for the year concerned, not the rate that is hard coded into the PCFM. Since the calculation is performed outside the PCFM we would suggest that the statutory rate of corporation tax that applied in year t-2 should be used instead of the PCFM rate.</p> <p>To give an example, if the tax rate changed to 50% in 2015/16 the licensee would have an incentive to increase gearing and interest costs. £100m of extra interest costs would attract tax relief of £50m but the tax claw back would only claw back £21m (the PCFM uses 21%). The £21m will go on to have tax on tax applied but will still not claw back the £50m of benefit.</p> <p>It is also worth noting that a number of incentive schemes in the licence refer to the actual statutory rate of corporation tax in calculations so it would seem sensible to do the same thing with this calculation.</p> <p>The revised text would be: "If there is no positive benefit the clawback is not triggered and the value of TGIE is zero. If the clawback has been triggered, Ofgem will multiply the result in 4.57 by the statutory corporation tax rate applicable in the year in which excess interest costs were incurred to derive the licensee's benefit figure which becomes TGIE."</p>
48	4.61	"TGIE values" at the start of this paragraph should be "TGIE and SOTGIE values"
49	4.62	The first bullet point should begin, " Ofgem will re-perform the gearing level test and, if applicable, the positive tax benefit test to determine whether..... "
50	5.1	The word "Vanilla" should be put before WACC as it is the Vanilla WACC (as opposed to Pre-tax WACC) that is being described.
51	Table 6.1	The footnote 40 reference is in the wrong format.
52	6.7	<p>The reference to "Opening Base Revenue Allowances" in the last sentence is incorrect and should be replaced with "recalculated base revenues" so the last sentence should read:</p> <p>"Applying the Funding Adjustment Rate to the over (or under spend) gives the amount that is added to (or subtracted from) the totex allowances included in recalculated base revenues. Wherever the term "Totex Incentive Mechanism Adjustment" is used in the Special Conditions, it means an adjustment under the mechanism described in this paragraph."</p>
53	6.19	"Total expenditure ("Totex")" should be moved to be a heading prior to this paragraph

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54	6.20	<p>Subsequent to Final Proposals being issued we have discussed with Ofgem whether the pension costs included in totex should be on a cash or accounting basis. Accounting standards require us (under a normal accruals basis) to charge costs to the income statement which do not necessarily represent cash costs but where the difference does not represent a short term timing difference. The discussion concluded that Ofgem would prefer us to remove the non cash accounting element from our reported costs. The totex definition does not yet reflect this discussion and needs to if we are to comply both with Ofgem's wishes and the reporting definitions.</p> <p>We have not yet agreed the correct form of words but one option would be to add the following bullet to the list of exceptions in paragraph 6.20:</p> <p>"The non cash element of current service pension costs charged to the income statement in accordance with accounting standards"</p>
55	6.25	The Handbook states "The items of expenditure included in each of the Totex sub-divisions set out in Table 6.2 are specified in the Cost and Revenue Reporting RIGs." This does not appear to be the case.
56	8.2	"opening base revenue allowances" should be capitalised as "Opening Base Revenue Allowances" because it is a defined licence term.
57	8.8	"opening base revenue allowances" should be capitalised as "Opening Base Revenue Allowances" because it is a defined licence term.
58	9.6	"opening base revenue allowances" should be capitalised as "Opening Base Revenue Allowances" because it is a defined licence term.
59	9.8	The reference to "Base Transmission Revenue" is incorrect in the context of the sentence that follows it. It is true that the Annual iteration process is used to calculate a new Base Transmission Revenue but these do not then feed the calculation for MOD. MOD feeds the calculation of Base Transmission Revenue. This can be corrected by changing "Base Transmission Revenue" to "recalculated base revenue" as used elsewhere in the document.
60	10.6	This para comments on forecast amounts referred to in para 10.3. There are no forecasts referred to in para 10.3
61	10.8	Insert the word "recalculated" before "base revenue figures" in the second line.
62	11.8	As with para 9.8 above, the reference to "Base Transmission Revenue" is incorrect in the context of the sentence that follows it. It is true that the Annual iteration process is used to calculate a new Base Transmission Revenue but these do not then feed the calculation for MOD. MOD feeds the calculation of Base Transmission Revenue. This can be corrected by changing "Base Transmission Revenue" to "recalculated base revenue" as used elsewhere in the document.
63	13.9	Insert the word "recalculated" before "base revenue figures" in the second line.

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64	13.13	At the end of bullet 2 “this condition” should be “ the condition”. The Handbook is not the licence.
65	14.6	“opening base revenue allowances” should be capitalised as “Opening Base Revenue Allowances” because it is a defined licence term.
66	14.8	The reference to “Base Transmission Revenue” is incorrect in the context of the sentence that follows it. It is true that the Annual iteration process is used to calculate a new Base Transmission Revenue but these do not then feed the calculation for MOD. MOD feeds the calculation of Base Transmission Revenue. This can be corrected by changing “Base Transmission Revenue” to “recalculated base revenue” as used elsewhere in the document.
67	14.10	In sub bullet (a) of bullet (iv), “DRI _t ” should be “DRI”.
68	15.3	The Handbook correctly describes the way the PCFM treats the opening RAV adjustment, i.e. as an adjustment to 2013/14 RAV additions. However, this means that an opening balance adjustment will not impact on the regulatory depreciation for 2013/14 due to the fact that depreciation applies the year after addition to the RAV. It would make more sense for the adjustment to be a change to the opening RAV (and 2012/13 additions). 2012/13 additions are included in the PCFM.
69	15.4	Remove “as set out in this chapter”. Such anomalous positions (almost by definition) are not set out in the chapter.
70	15.23	“see link on page 2” should be “see link on page 3”
71	15.38	The use of the term “Opening Base Revenue Allowance” is not appropriate for 2012-13.
72	15.44	This para does not describe the situation for NGET. We would suggest adding a footnote after the word “settlement” in the second sentence. The footnote could state: “For NGET, the rollover settlement included 20% of the provisional value with the remainder to be funded during the RIIO-T1 Price Control period.”
73	15.46	The explanation of the calculation in the first bullet is incomplete as it omits the termination payments and stranded costs part of the licence formula (the NTP term). The legacy workbook includes the relevant calculations but the Handbook does not. Text should be added to the first bullet as follows: “For SPTL and SHETPLC the first is calculated as the indexed value of the sharing factor (CIR) multiplied by the present value factor (PVF) multiplied by the sum of the zonal generation capex adjustment (LV in D9, LVN in J7). For NGET the first is calculated as the indexed value of the sharing factor (CIR) multiplied by the present value factor (PVF) multiplied by the sum of both the zonal generation and demand capex adjustment plus WIP (LV in D9, LVN in J7) and the capital shortfall (i.e. the difference between termination receipts and the associated capital expenditure (NTP in D9)). ”

Respondent details		NGET
No.	Page/Paragraph Ref	Comments
74	15.73	<p>The first bullet omits 2012-13 in error. The first bullet should calculate the correct updated adjustment (including for 2012-13) and then the second bullet removes the previous adjustment for 2012-13. To achieve this add “and 2012-13” to the bullet so that it reads:</p> <p>“Using the efficient expenditure for 2009-10 and 2010-11 and the efficient expenditure for 2011-12 and 2012-13 we will compare the expenditure to the TII Actual Allowance for each year and applying the relevant sharing factor (as specified in Table 5 of Appendix 1 of Special Condition 6B) to the difference to calculate the revenue adjustment;”</p>
75	15.76	<p>15.75 explains the IRAV adjustment includes “the TPCR4 Rollover year” (i.e. 2012-13) but the second bullet of 15.76 then says that the RAV adjustment only covers “years prior to 2012-13”. In the legacy workbook the adjustment relating to 2012-13 expenditure is included in the CRAV term. We would therefore suggest adding a third bullet as follows:</p> <p>“The RAV adjustment relating to 2012-13 expenditure is included in the CRAV term.”</p>
76	15.89	<p>The reference to 15.81(g) should be 15.88(g)</p>
77	Glossary	<p>In the definition of the ET1 PCFM the last sentence is incorrect. The PCFM does not calculate changes to the Opening Base Revenue Allowances. These Allowances never change. It calculates changes from Opening Base Revenue Allowances according to the licence definition.</p> <p>This should be replaced with:</p> <p>“The PCFM calculates appropriate changes from the licensee’s Opening Base Revenue Allowances through an Annual Iteration Process - see Chapters 1 and 2”</p> <p>A clearer version (to help avoid confusion) would be to replace “Opening Base Revenue Allowances” with “Base Transmission Revenue”. The sentence would then be “The PCFM calculates appropriate changes to the licensee’s Base Transmission Revenue through an Annual Iteration Process - see Chapters 1 and 2”</p>

Respondent details		NGET
No.	Page/Paragraph Ref	Comments
78	Glossary	<p>In the definition of the MOD Term the sentence saying what MOD represents is incorrect. MOD does not represent a change to the Opening Base Revenue Allowances. These Allowances never change. It represents a change from Opening Base Revenue Allowances according to the licence definition.</p> <p>The relevant sentence should be replaced with: “It represents the incremental change from the licensee’s Opening Base Revenue Allowance for the Relevant Year concerned, ascertained in accordance with the methodologies set out in this Handbook.”</p> <p>A clearer version (to help avoid confusion) would be to replace “Opening Base Revenue Allowances” with “Base Transmission Revenue”. The sentence would then be ““It represents the incremental change to the licensee’s Base Transmission Revenue for the Relevant Year concerned, ascertained in accordance with the methodologies set out in this Handbook.””</p>
79	Glossary	<p>In the definition of Pre-tax WACC “eg on TIRG of TII projects” should be replaced with “e.g. on TII projects” TIRG did not use the normal pre-tax return, it used a different rate.</p>

Comments in relation to GT1 Financial Handbook

Respondent details	NGGT	
No.	Page/Paragraph Ref	Comments
1	Page 1	The reference to "Opening Base Revenue Allowances" in bullet point (a) is incorrect. The Annual iteration Process does not update the Opening Base Revenue Allowances; these are now a fixed value. The term should be replaced with "Base NTS Transportation Owner Revenue" (and possibly the SO equivalent)
2	Page 3	The link to the GT1 PCFM needs to be updated to the new PCFM
3	1.2	The reference to "Opening Base Revenue Allowances" is incorrect. The Annual iteration Process does not make updates "to" the Opening Base Revenue Allowances; these are now a fixed value. It would be clearer to replace "Opening Base Revenue Allowances" with "recalculated base revenues" as this term is used elsewhere in the document. The less clear alternative would be to change the word "to" to "from" so the first sentence reads: "The GT1 Price Control Financial Model (PCFM) has been designed to calculate incremental changes from the licensee's Opening Base Revenue Allowances for each Formula Year so that the updated base revenue allowances reflect the adjustment schemes specified in the licence and detailed in the methodologies in this Handbook."
4	2.1	The reference to "Opening Base Revenue Allowance" is incorrect and should be replaced with "Base NTS Transportation Owner Revenue".
5	3.4	The text "– ie the amounts are treated as 100 per cent fast money" should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE, APFE, SOEDE and SOAPFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.
6	Table 3.2 Item 8	In the right hand column there is a " missing. "D ₂₀₁₃₋₁₄ should be "D ₂₀₁₃₋₁₄ "
7	Table 3.2 Item 10	In the first sentence the word "of" needs to be added before "money" so the sentence becomes: "Obtain the difference between the pre-existing allowances and actual payments, and adjust for tax and the time value of money."
8	Table 3.2 Item 10	The word "Vanilla" should be added to the definition of WACC _{year} so that it reads "is the Vanilla Weighted Average Cost of Capital attributable in the relevant Formula Year". This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
9	Table 3.3 Item 8	The text "for each Formula Year" in sub para (b) is in coloured text incorrectly.

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
10	Table 3.3 Item 9	Minor grammatical corrections made (missing full stops and a full stop where it should be a comma). Revised text would be: "Obtain the pre-existing EDE/SOEDE annual allowances for 2014-15 as set out in Final Proposals and for 2015-16 and 2016-17 as reset at 1 April 2015 (i.e. value C1 established at step 7 in table 3.2 above), in 2009-10 prices for each year (E_{year}), in each case excluding (i) any true-up allowances and (ii) the amount set out in Final Proposals for contingent asset allowances ("H")."
11	Table 3.3 Item 10	The word "allowance" in the first line should be "allowances" so the sentence reads: "Obtain the difference between the pre-existing allowances and actual payments and adjust for tax and the time value of money."
12	Table 3.3 Item 10	The word "Vanilla" should be added to the definition of $WACC_{year}$ so that it reads "is the Vanilla Weighted Average Cost of Capital attributable in the relevant Formula Year". This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
13	3.31	In the first point (iii), in the section "Values to be directed by 30 November 2014", to improve clarity "(in 2009-10 prices)" should be added so the text reads: "The aggregate price control allowance (in 2009-10 prices) for Pension Scheme Administration and PPF levy expenditure for that year set out in the relevant Final Proposals will be obtained, to which is added the annual adjustment threshold amount of £1m."
14	3.31	In the second point (iii) (i.e. in the section "Values to be directed by 30 November 2017"), to improve clarity "(in 2009-10 prices)" and "each of" should be added so the text reads: "The aggregate price control allowance (in 2009-10 prices) for Pension Scheme Administration and PPF levy expenditure for each of those years set out in the Final Proposals as updated in step (vii) above by 30 November 2014 is obtained, to which is added the annual adjustment threshold amount of £1m." The "each of" is added to clarify that the £1m threshold is an annual threshold amount as per the Final Proposals (Transmission Finance document para 5.31)

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
15	3.31	<p>Also, under the “Values to be directed by 30 November 2017” heading, points (iv), (v) and (vi) should be amended to clarify that the £1m threshold is annual as per the Final Proposals (Transmission Finance document para 5.31). Revised text is shown below:</p> <p>“(iv) For each of the Formula Years 2014-15, 2015-16 and 2016-17 for which the amount referred to in step (iii) is exceeded by the corresponding amount in step (ii), the excess amount only will be added to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)).</p> <p>(v) For each of the Formula Years 2014-15, 2015-16 and 2016-17 for which the amount at (ii) is less than the corresponding amount at step (iii), no revision to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)) will be made.</p> <p>(vi) Any excess amounts at (iv) will be added to the pre-existing APFE and SOAPFE values for the relevant year or years to determine the revised APFE and SOAPFE values for Formula Years 2014-15, 2015-16 and 2016-17.”</p>
16	3.33	<p>The text “and are treated as 100 per cent fast money” should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE, APFE, SOEDE and SOAPFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.</p>
17	4.7	<p>In the second bullet “incoporate” should be “incorporate”</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
18	4.11	<p>We do not understand why this paragraph has been changed from the version in the previous draft of the Handbook. While the changes may not look significant the paragraph is now incorrect. The process described in the paragraph now needs to reference the fact that calculation would have to multiply by 1-CT. This is because the ‘implied negative tax allowance’ would always have included ‘tax on tax’ (as it is a tax allowance) and therefore to get back to the regulatory tax loss, multiplying by 1-CT is required.</p> <p>Using the new text, this can be achieved by replacing “grossed up with reference to the corporation tax rate for the licensee” with “multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee)”.</p> <p>The full text of the paragraph would then be: “In some instances, the approach to calculating tax liability allowances could imply that the licensee should receive a negative allowance. In such cases, the price control treatment is to model a zero allowance and add an amount to the ‘regulatory tax losses’ balance for the licensee held within the PCFM. The amount added is the implied negative tax allowance multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee). In tax modelling for subsequent years, regulatory tax losses are deducted from taxable profits when calculating tax allowances; this may extinguish the regulatory tax losses balance or leave amounts to be used in later calculations. The regulatory tax losses position may separately be affected (updated) by revisions to other PCFM Variable Values for Formula Years earlier than Formula Year t.”</p> <p>An alternative would be to reinstate the original paragraph</p> <p>“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’ figure, to be deducted from the taxable profits before the tax is calculated for any tax liability allowances which would otherwise be allocated to the year concerned or later years. The regulatory tax loss balance attributable to each Formula Year (together with a running total) is held within the PCFM and regulatory tax losses are referred to where applicable in the methodologies in this Chapter.”</p>
19	4.21	<p>The word “liabilities” in the first sentence needs to be changed to “liability allowance” so it reads:</p> <p>“Where the change to the licensee’s tax liability allowance for a particular Formula Year is below the threshold, subsequent tax trigger events, relating back to that Formula Year could cause the threshold amount to be exceeded. In that case, a change to the licensee’s tax liability allowance for the Formula Year concerned (a revised TTE/SOTTE value) would be determined once the threshold has been exceeded. For the avoidance of doubt no previously directed value of MOD or SOMOD will be retrospectively affected. Adjustments become component parts of future MOD or SOMOD calculations only.”</p> <p>It is not the change to liabilities that is relevant; it is the change to allowances.</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
20	4.31	<p>Sub bullets (b) and (c) should clarify that the number being calculated is a tax allowance figure and, to be consistent with the revised PCFM and paragraph 4.7, that allowance already includes a tax on tax factor. We would therefore suggest replacing the current text with the following:</p> <p>“(b) the change in tax liability allowances which the event is considered to cause and the Formula Years to which they relate; (c) the calculations (including all relevant parameters and values) which the licensee used to arrive at the amounts referred to in sub-paragraph b). In performing these calculations the licensee should include a ‘tax allowance on tax allowance’ factor as explained in paragraph 4.7 but should ignore the tax trigger deadband which is adjusted for in paragraph 4.40;”</p>
21	4.40	<p>The instructions in this paragraph omit an important first step. The correct Formula Year has to be selected using the PCFM year t selector on the User interface worksheet of the PCFM. If the user has not updated the Formula Year (which will now be one year out if they have taken a duplicate of the previous model) then the Tax Trigger worksheet will not apply the input values entered on the Tax Trigger worksheet.</p> <p>To avoid changing the sub bullet references this step can be added to sub bullet (i) which would then read:</p> <p>“All of the other PCFM Variable Value revisions which have been determined for use in the prospective Annual Iteration Process (and which Ofgem expects to include in the notices of proposed Variable Value revisions to licensees) will be applied to the Variable Values Table. The correct Formula Year will be selected using the PCFM year t selector on the User interface worksheet of the PCFM.”</p>
22	4.40	<p>In step (viii) the text should be changed to clarify that the Type B value input must be the change to the tax liability allowances (not tax liabilities) including the iterative tax allowance on tax allowance factor. This is required to be consistent with the way the PCFM operates and paragraph 4.7.</p> <p>Paragraph to be amended to:</p> <p>“The aggregate changes to the licensee’s tax liability allowances determined in respect of all Type B trigger events (whether notified during Formula Year t-1 or on an earlier occasion) will be input into the yellow input cells on the ‘Tax Trigger’ row of the ‘B event value’ section in the appropriate Formula Year columns on the tax trigger worksheet. This value should include the iterative tax allowance on tax allowance factor referred to in paragraph 4.7.”</p>
23	4.40	<p>In step (x) we would suggest it be made clear that the allowance based on new inputs includes the Type A and Type B trigger events. The text should be amended to read:</p> <p>“The ‘tax allowance (pre-losses) before tax trigger’ referred to at step (iv) will be deducted from the ‘Tax allowance’ that has been calculated based on the new inputs (including both Type A and Type B trigger events).”</p>

Respondent details	NGGT	
No.	Page/Paragraph Ref	Comments
24	4.40	In step (xiii) the first reference to step (x) is incorrect; it should be (xi) as it is the absolute value of the adjustment that is compared to the deadband. See drafting suggestion below.

Respondent details	NGGT																													
No.	Page/Paragraph Ref	Comments																												
25	4.40	<p>In step (xiii) the “multiplied by -1” should be removed from <u>both steps</u> as it is incorrect. Also, the existing text is confusing as you could interpret the “multiplied by -1” as applying to the whole equation or just the deadband. Either way, the text should be updated. This is best illustrated by an example:</p> <p>Step (xiii) sub bullet (i)</p> <table border="1" data-bbox="591 555 1442 911"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>70</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>-20</td> </tr> <tr> <td>Amount is negative so sub bullet (i) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1</td> <td>-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17</td> </tr> <tr> <td>The correct adjustment would have been -17</td> <td>-20 + 3 = -17</td> </tr> </table> <p>Step (xiii) sub bullet (ii)</p> <table border="1" data-bbox="591 1002 1442 1329"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>100</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>10</td> </tr> <tr> <td>Amount is positive so sub bullet (ii) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = 10 less the deadband multiplied by -1</td> <td>10 – (3x-1) = 10 – (-3) = 13 OR (10 – 3) x -1 = -7</td> </tr> <tr> <td>The correct adjustment would have been 7</td> <td>10 – 3 = 7</td> </tr> </table> <p>See drafting suggestion in next item</p>	Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	70	Result of step (x) (deduct old allowance from new calculation)	-20	Amount is negative so sub bullet (i) applies		Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1	-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17	The correct adjustment would have been -17	-20 + 3 = -17	Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	100	Result of step (x) (deduct old allowance from new calculation)	10	Amount is positive so sub bullet (ii) applies		Adjustment equals result of step (x) = 10 less the deadband multiplied by -1	10 – (3x-1) = 10 – (-3) = 13 OR (10 – 3) x -1 = -7	The correct adjustment would have been 7	10 – 3 = 7
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The correct adjustment would have been 7	10 – 3 = 7																													

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
26	4.40 continued	<p>This paragraph should be amended to:</p> <p>“If the value calculated at step (xi) is greater than the deadband amount then:</p> <p>(iii) if the amount obtained under step (x) is negative, the tax trigger adjustment is shown as that amount plus the deadband; or</p> <p>(iv) if the amount obtained under step (x) is positive, the tax trigger adjustment is shown as that amount minus the deadband amount.”</p>
27	4.41	<p>The first sentence is not strictly correct and should be replaced with the equivalent para from the ET Handbook (replacing Relevant Year with Formula Year) as follows:</p> <p>“Subject to paragraph 4.42, the relevant amounts obtained under step (xii) or (xiii) will then be determined to be the TTE/SOTTE values for the licensee for each Formula Year where the deadband has been exceeded...”</p>
28	4.42	In the “Notes on the tax trigger calculation”, “set out in 4.39” should say “set out in 4.40 ”
29	4.42	In the second bullet the reference to “step (xi)” should be to “step (xiii) ”
30	4.53	<p>The explanation of how year end prices are calculated is incorrect. The current text says</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Formula Year t-2 and inflate to year-end prices for Formula Year t-2, using the arithmetic average of the RPI data for March and April of Formula Year t-2; and”</p> <p>March and April of year t-2 are actually 11 months apart. This should be March of t-2 and April of t-1 so the text should be revised to:</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Formula Year t-2 and inflate to year-end prices for Formula Year t-2, using the arithmetic average of the RPI data for March of Formula Year t-2 and April of Formula Year t-1; and”</p>
31	4.57	The words “for the purposes of tax liability allowances” should be deleted. The relevant interest numbers in the PCFM also include non-core interest costs which are not used to calculate tax liability allowances but are part of the comparison used in the positive benefit test (by virtue of not being excluded from the actual costs)

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
32	4.58	To make the paragraph consistent with the final sentence of the previous paragraph, this paragraph should start "If the amount is zero or negative and therefore no positive tax benefit, the clawback is not triggered....."
33	4.58	<p>The purpose of this adjustment is to claw back the tax benefit received as a result of incurring excess interest costs. This benefit will have been received at the statutory rate of corporation tax applicable for the year concerned, not the rate that is hard coded into the PCFM. Since the calculation is performed outside the PCFM we would suggest that the statutory rate of corporation tax that applied in year t-2 should be used instead of the PCFM rate.</p> <p>To give an example, if the tax rate changed to 50% in 2015/16 the licensee would have an incentive to increase gearing and interest costs. £100m of extra interest costs would attract tax relief of £50m but the tax claw back would only claw back £21m (the PCFM uses 21%). The £21m will go on to have tax on tax applied but will still not claw back the £50m of benefit.</p> <p>It is also worth noting that a number of incentive schemes in the licence refer to the actual statutory rate of corporation tax in calculations so it would seem sensible to do the same thing with this calculation.</p> <p>The revised text would be: "If there is no positive benefit the clawback is not triggered and the value of TGIE is zero. If the clawback has been triggered, Ofgem will multiply the result in 4.57 by the statutory corporation tax rate applicable in the year in which excess interest costs were incurred to derive the licensee's benefit figure which becomes TGIE."</p>
34	4.62	The first bullet point should begin, "Ofgem will re-perform the gearing level test and, if applicable, the positive tax benefit test to determine whether....."
35	5.1	The word "Vanilla" should be put before WACC as it is the Vanilla WACC (as opposed to Pre-tax WACC) that is being described.
36	6.7	A bracket should be included after "(TIM" in the first sentence.
37	6.7	<p>The reference to "Opening Base Revenue Allowances" in the last sentence is incorrect and should be replaced with "recalculated base revenues" so the last sentence should read:</p> <p>"Applying the Funding Adjustment Rate to the over (or under spend) gives the amount that is added to (or subtracted from) the totex allowances included in recalculated base revenues. Wherever the term "Totex Incentive Mechanism Adjustment" is used in the Special Conditions, it means an adjustment under the mechanism described in this paragraph."</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
38	6.10	<p>The second sentence should be changed from</p> <p>“NGGT TO have two rates of capitalisation.”</p> <p>To</p> <p>“NGGT TO has two rates of capitalisation, one for baseline expenditure and an “uncertainty rate”.”</p>
39	6.21	<p>Subsequent to Final Proposals being issued we have discussed with Ofgem whether the pension costs included in totex should be on a cash or accounting basis. Accounting standards require us (under a normal accruals basis) to charge costs to the income statement which do not necessarily represent cash costs but where the difference does not represent a short term timing difference. The discussion concluded that Ofgem would prefer us to remove the non cash accounting element from our reported costs. The totex definition does not yet reflect this discussion and needs to if we are to comply both with Ofgem’s wishes and the reporting definitions.</p> <p>We have not yet agreed the correct form of words but one option would be to add the following bullet to the list of exceptions in paragraph 6.21:</p> <p>“The non cash element of current service pension costs charged to the income statement in accordance with accounting standards”</p>
40	6.26	<p>The Handbook states “The items of expenditure included in each of the Totex sub-divisions set out in Table 6.2 are specified in the Cost and Revenue Reporting RIGs”</p> <p>This does not appear to be the case. This guidance is important as we now need to attribute and allocate costs (e.g. controllable costs) between two categories, namely the uncertain and the non-uncertain category.</p>
41	7.9	<p>At the end of the definition “this licence relates” should be “the licence relates”. The Handbook is not the licence.</p>
42	7.10	<p>At the end of the definition “this licence relates” should be “the licence relates”. The Handbook is not the licence.</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
43	7.27	<p>This para incorrectly states that the annual iteration process will be carried out in the year following the uncertainty mechanism window when it is actually the same year. The word “following” should be replaced with “in” so the paragraph becomes as shown below.</p> <p>“It follows from the timetable outlined in paragraphs 7.22 to 7.26 above that the Authority will only determine revised PCFM Variable Values relating to uncertain cost categories (as set out in Table 7.1) for use in the Annual Iteration Process in the year in which an application window arises or, in relation to Network Flexibility within four months following the receipt of a proposed adjustment and the conclusion of the assessment process. In relation to Agency costs the Authority will determine a revised PCFM Variable Value after the conclusion of the review.”</p>
44	8.1	<p>The paragraph shouldn’t refer to the construction of incremental capacity as it could be released via contractual means. “Construction” should be changed to “release” as shown below:</p> <p>“Special condition 5F (Determination of incremental obligated entry capacity volumes and the appropriate revenue drivers to apply) contains a mechanism for adjusting the licensee’s allowed expenditure in respect of the release of incremental obligated entry capacity.”</p>
45	8.5	<p>While this paragraph is consistent with the way “t” has been described elsewhere in the document it creates confusion when applied to this uncertainty mechanism (see comment on 8.9 example below) and it would be preferable to maintain consistency with the licence terms.</p> <p>To achieve greater consistency with the licence this paragraph should be amended to read:</p> <p>“For the purposes of Special Condition 5F, and this chapter, “Formula Year t” means the Formula Year in which the incremental capacity is released.”</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
46	8.9 Example	<p>The indicative example doesn't quite work as it does not take account of auction timings, obligated lead times etc and also counts forward from auction signal whereas the licence counts backwards from obligated capacity release (see related item above on para 8.5). The revised example below is more consistent with the timings in the licence and provides greater clarity on when allowances etc would be adjusted.</p> <p>"During the first year of RIIO-T1 the licensee gives notice that it has received a firm commitment for entry capacity at an entry point during the March 2014 QSEC auction. The licensee confirms that this request cannot be met by a variation to the constraint management target capacity or by substitution of capacity. This capacity is to be delivered in year t, which equates to October 2017 (i.e. 2017-18).</p> <p>The allowed expenditure will already have been calculated based on the unit costs being applied to the investments identified by network analysis to create a £/GWh Unit Cost Allowance.</p> <p>The allowed expenditure is directed by the Authority, as part of the November 2014 Annual Iteration Process, as additional allowances for year t-2 (2015-16) (20%); year t-1 (2016-17) (80%) and 1 per cent for the remaining years of RIIO-T1."</p>
47	9.1	<p>The paragraph shouldn't refer to the construction of incremental capacity as it could be released via contractual means.</p> <p>"Construction" should be changed to "release" as shown below:</p> <p>"Special condition 5G (Determination of incremental obligated exit capacity volumes and the appropriate revenue drivers to apply) contains a mechanism for adjusting the licensee's allowed expenditure in respect of the release of incremental obligated exit capacity."</p>
48	9.5	<p>While this paragraph is consistent with the way "t" has been described elsewhere in the document it creates confusion when applied to this uncertainty mechanism (see comment on 8.9 example below) and it would be preferable to maintain consistency with the licence terms.</p> <p>To achieve greater consistency with the licence this paragraph should be amended to read:</p> <p>"For the purposes of Special Condition 5G, and this chapter, "Formula Year t" means the Formula Year in which the incremental capacity is released."</p>

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
49	9.9 Example	<p>The indicative example doesn't quite work as it does not take account of auction timings, obligated lead times etc and also counts forward from auction signal whereas the licence counts backwards from obligated capacity release (see related item above on para 9.5). The revised example below is more consistent with the timings in the licence and provides greater clarity on when allowances etc would be adjusted.</p> <p>"During the first year of RIIO-T1 the licensee gives notice that it has received a firm commitment for exit capacity at an exit point during the July 2013 Exit Application Window. The licensee confirms that this request cannot be met by a variation to the constraint management target capacity or by substitution of capacity. This capacity is to be delivered in year t, which equates to October 2016 (i.e. 2016-17).</p> <p>The allowed expenditure will already have been calculated based on the unit costs being applied to the investments identified by network analysis to calculate a £/GWh Unit Cost Allowance.</p> <p>The allowed expenditure is directed by the Authority, as part of the 2013 Annual Iteration Process, as additional allowances for year t-2 (2014-15) (20%); year t-1 (2015-16) (80%) and 1 per cent for the remaining years of RIIO-T1."</p>
50	10.14	While the intention of this paragraph is understood by an informed reader it includes an element of double count. The totex incentive mechanism adjustments are reflected in changes to fast and slow money so to mention these as well as mentioning the fast and slow money adjustments essentially represents a double count.
51	11.2	The Handbook correctly describes the way the PCFM treats the opening RAV adjustment, i.e. as an adjustment to 2013/14 RAV additions. However, this means that an opening balance adjustment will not impact on the regulatory depreciation for 2013/14 due to the fact that depreciation applies the year after addition to the RAV. It would make more sense for the adjustment to be a change to the opening RAV (and 2012/13 additions). 2012/13 additions are included in the PCFM.
52	11.3	Remove "as set out in this chapter". Such anomalous positions (almost by definition) are not set out in the chapter.
53	11.21	"see link on page 2" should be "see link on page 3"
54	11.36	The use of the term "Opening Base Revenue Allowance" is not appropriate for 2012-13.

Respondent details		NGGT
No.	Page/Paragraph Ref	Comments
55	11.57	<p>The revised text for the SOOIR term is overly restrictive. Rather than stating that no adjustment is expected to be required it would be better to state how any such adjustment would be determined if one is required. As things stand the Handbook provides no guidance in the event that an adjustment is required. This could be achieved by reinstating the previous text prior to this more recent update but without stating that the calculation is in the legacy workbook. A drafting suggestion is provided below.</p> <p>“The SOOIR component term represents any allowed revenue adjustment relating to legacy period System Operator internal costs incentive. In the event that an adjustment is required, it is calculated by comparing the allowed internal operating costs with the actual allowed costs. There is a sharing factor of 25 per cent. “</p>
56	Glossary	<p>In the definition of the GT1 PCFM the last sentence is incorrect. The PCFM does not calculate changes to the Opening Base Revenue Allowances. These Allowances never change. It calculates changes from Opening Base Revenue Allowances according to the licence definition.</p> <p>This should be replaced with: “The PCFM calculates appropriate changes from the licensee’s Opening Base Revenue Allowances through an Annual Iteration Process - see Chapters 1 and 2”</p> <p>A clearer version (to help avoid confusion) would be to replace “Opening Base Revenue Allowances” with “Base NTS Transportation Owner Revenue”. The sentence would then be “The PCFM calculates appropriate changes to the licensee’s Base NTS Transportation Owner Revenue through an Annual Iteration Process - see Chapters 1 and 2”</p>
57	Glossary	<p>In the definition of the MOD Term the sentence saying what MOD represents is incorrect. MOD does not represent a change to the Opening Base Revenue Allowances. These Allowances never change. It represents a change from Opening Base Revenue Allowances according to the licence definition.</p> <p>The relevant sentence should be replaced with: “it represents the incremental change from the licensee’s Opening Base Revenue Allowance for the Formula Year concerned, ascertained in accordance with the methodologies set out in this Handbook.”</p> <p>A clearer version (to help avoid confusion) would be to replace “Opening Base Revenue Allowances” with “Base NTS Transportation Owner Revenue”. The sentence would then be ““It represents the incremental change to the licensee’s Base NTS Transportation Owner Revenue for the Formula Year concerned, ascertained in accordance with the methodologies set out in this Handbook.””</p>

Comments in relation to GD1 Financial Handbook

Respondent details	NGG Distribution	
No.	Page/Paragraph Ref	Comments
1	Page 1	The reference to "Opening Base Revenue Allowances" in bullet point (a) is incorrect. The Annual iteration Process does not update the Opening Base Revenue Allowances; these are now a fixed value. The term should be replaced with "Base Distribution Revenue"
2	Page 2	The links to the GD1 PCFM need to be updated to the new PCFMs
3	1.2	The reference to "Opening Base Revenue Allowances" is incorrect. The Annual iteration Process does not make updates "to" the Opening Base Revenue Allowances; these are now a fixed value. It would be clearer to replace "Opening Base Revenue Allowances" with "recalculated base revenues" as this term is used elsewhere in the document. Further, Handbook should contain a capital 'H' (see below). The less clear alternative would be to change the word "to" to "from" so the first sentence reads: "The GD1 Price Control Financial Model (PCFM) has been designed to calculate incremental changes from the licensee's Opening Base Revenue Allowances for each Formula Year so that the updated base revenue allowances reflect the adjustment schemes specified in the licence and detailed in the methodologies in this Handbook."
4	1.7	The reference to "Opening Base Revenue Allowance" is incorrect. MOD does not adjust "Opening Base Revenue Allowance, it adjusts "Base Distribution Revenue".
5	2.1	The reference to "Opening Base Revenue Allowance" is incorrect and should be replaced with "Base Distribution Revenue".
6	3.4	The text "– ie the amounts are treated as 100 per cent fast money" should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE and APFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.
7	Table 3.2 Item 9	Remove closed bracket after "in 2009-10 prices."
8	Table 3.2 Item 10	The end of the last sentence in the first paragraph should read "time value of money."
9	Table 3.2 Item 10	The text "This is computed as: "D" – "E"." should be deleted – it is not needed, and the formula fails to take account of the adjustments for tax and WACC that are detailed in the formulae that follow later in the table.
10	Table 3.2 Item 10	The definition of "CT ₂₀₁₃₋₁₄ " should read 'is the actual rate of Corporation Tax applicable in Formula Year 2013-14, or is zero if the licensee does not have taxable profits for the year'.
11	Table 3.2 Item 10	In the definition of CT ₂₀₁₅₋₁₆ , the phrase "...EDE value are revised,..." should be changed to "...EDE value is revised,..."

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
12	Table 3.2 Item 10	The word “Vanilla” should be added to the definition of $WACC_{year}$ so that it reads “is the Vanilla Weighted Average Cost of Capital attributable in the Formula Year ”. This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
13	Table 3.2 Item 11	In the definition of the term ‘DR’, the final part of the sentence has a “the” in the wrong place and should read...’if the actual payment “D”.....’
14	Table 3.3 Item 5	Should read ‘Established Deficit amount as at 31 March 2016 deflated.....’
15	Table 3.3 Item 8	The reference to $RPI_{nominal}$ should be changed to RPI_{year} to be consistent with the definitions of the same section in Table 3.3. The relevant text would then read: “Steps (a) to (c) are computed for each Formula Year as: = $(ED - DC) * (RPI_{2009-10} / RPI_{year})$ “
16	Table 3.3 Item 8	The definition of “ DC_{year} ” should read, ‘is the value of disallowed costs for the relevant Formula Year arising.....’
17	Table 3.3 Item 9	Open bracket missing in first paragraph before “i.e.”
18	Table 3.3 Item 9	There is a surplus “in 2009-10 prices,” in the paragraph. The paragraph should be: “Obtain the pre-existing EDE annual allowances for 2014-15 as set out in Final Proposals and for 2015-16 and 2016-17 as reset at 1 April 2015 (i.e. value C1 established at step 7 in table 3.2 above), in 2009-10 prices for each year (E_{year}); in each case excluding (i) any true-up allowances and (ii) the amount set out in Final Proposals for contingent asset allowance amounts.”
19	Table 3.3 Item 10	In the first line, allowance should read ‘allowances’ so the line says: “Obtain the difference between the pre-existing allowances and actual payments and adjust for tax and the time value of money.”
20	Table 3.3 Item 10	The word “Vanilla” should be added to the definition of $WACC_{year}$ so that it reads “is the Vanilla Weighted Average Cost of Capital attributable in the relevant Formula Year ”. This clarification is required since the glossary specifically mentions that Ofgem sometimes uses Vanilla WACC and sometimes uses Pre-Tax WACC. Without the clarification users will not know which WACC to use.
21	Table 3.3 Item 11	In the last paragraph, The simple term “D” is no longer a parameter in this table 3.3 and so should not be referred to here. This reference has been removed from the GT Handbook and the same words should be used in the GD Handbook as follows: “The value “G2” may be either positive (if actual payments are greater than the pre-existing allowance), or negative (if actual payments are less than the pre-existing allowances).”

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
22	3.30	Point (iii) in the section <i>Values to be directed by 30 November 2014</i> should read, "The aggregate price control allowance for Pension Scheme Administration and PPF levy expenditure for that year set out in the relevant Final Proposals (in 2009-10 prices) will be obtained, to which is added the annual adjustment threshold amount of £1m."
23	3.30	Point (iii) in the section <i>Values to be directed by 30 November 2017</i> should read, "The aggregate price control allowance (in 2009-10 prices) for Pension Scheme Administration and PPF levy expenditure for each of those years set out in the relevant Final Proposals as updated in step (vii) above by 30 November 2014 is obtained, to which is added the annual adjustment threshold amount of £1m." The "each of" is added to clarify that the £1m threshold is an annual one as per the Final Proposals
24	3.30	Under the <i>Values to be directed by 30 November 2017</i> heading, points (iv), (v) and (vi) should be amended to clarify that the £1m threshold is annual as per the Final Proposals. Revised text is shown below: "(iv) For each of the Formula Years 2014-15, 2015-16 and 2016-17 for which the amount referred to in step (iii) is exceeded by the corresponding amount in step (ii), the excess amount only will be added to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)) . (v) For each of the Formula Years 2014-15, 2015-16 and 2016-17 for which the amount at (ii) is less than the corresponding amount at step (iii) , no revision to the relevant Admin and PPF Levy allowance (i.e. the pre-existing price control allowance for 2014-15 or the reset allowances for 2015-16 or 2016-17 (as reset by 30 November 2014 at step (vii) above)) will be made. (vi) Any excess amounts at (iv) will be added to the pre-existing APFE and SOAPFE values for the relevant year or years to determine the revised APFE and SOAPFE values for Formula Years 2014-15, 2015-16 and 2016-17."
25	3.32	The text "and are treated as 100 per cent fast money" should be deleted. Fast money (as defined in the glossary) is a concept that is only relevant to totex. Since EDE and APFE values cover costs which are specifically excluded from the definition of totex, they cannot be treated as fast money.
26	4.3	"base" should be "Base " .

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
27	4.11	<p>We do not understand why this paragraph has been changed from the version in the previous draft of the Handbook. While the changes may not look significant the paragraph is now incorrect. The process described in the paragraph now needs to reference the fact that calculation would have to multiply by 1-CT. This is because the ‘implied negative tax allowance’ would always have included ‘tax on tax’ (as it is a tax allowance) and therefore to get back to the regulatory tax loss, multiplying by 1-CT is required.</p> <p>Using the new text, this can be achieved by replacing “grossed up with reference to the corporation tax rate for the licensee” with “multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee)”.</p> <p>The full text of the paragraph would then be: “In some instances, the approach to calculating tax liability allowances could imply that the licensee should receive a negative allowance. In such cases, the price control treatment is to model a zero allowance and add an amount to the ‘regulatory tax losses’ balance for the licensee held within the PCFM. The amount added is the implied negative tax allowance multiplied by 1-CT and then divided by CT (where CT is the corporation tax rate for the licensee). In tax modelling for subsequent years, regulatory tax losses are deducted from taxable profits when calculating tax allowances; this may extinguish the regulatory tax losses balance or leave amounts to be used in later calculations. The regulatory tax losses position may separately be affected (updated) by revisions to other PCFM Variable Values for Formula Years earlier than Formula Year t.”</p> <p>An alternative would be to reinstate the original paragraph</p> <p>“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’ figure, to be deducted from the taxable profits before the tax is calculated for any tax liability allowances which would otherwise be allocated to the year concerned or later years. The regulatory tax loss balance attributable to each Formula Year (together with a running total) is held within the PCFM and regulatory tax losses are referred to where applicable in the methodologies in this Chapter.”</p>
28	4.31	<p>Sub bullets (b) and (c) should clarify that the number being calculated is a tax allowance figure and, to be consistent with the revised PCFM and paragraph 4.7, that allowance already includes a tax on tax factor. We would therefore suggest replacing the current text with the following:</p> <p>“ (b) the change in tax liability allowances which the event is considered to cause and the Formula Years to which they relate; (c) the calculations (including all relevant parameters and values) which the licensee used to arrive at the amounts referred to in sub-paragraph b). In performing these calculations the licensee should include a ‘tax allowance on tax allowance’ factor as explained in paragraph 4.7 but should ignore the tax trigger deadband which is adjusted for in paragraph 4.40;”</p>

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
29	4.40	<p>The instructions in this paragraph omit an important first step. The correct Formula Year has to be selected using the PCFM year t selector on the User interface worksheet of the PCFM. If the user has not updated the Formula Year (which will now be one year out if they have taken a duplicate of the previous model) then the Tax Trigger worksheet will not apply the input values entered on the Tax Trigger worksheet.</p> <p>To avoid changing the sub bullet references this step can be added to sub bullet (i) which would then read:</p> <p>“All of the other PCFM Variable Value revisions which have been determined for use in the prospective Annual Iteration Process (and which Ofgem expects to include in the notices of proposed Variable Value revisions to licensees) will be applied to the Variable Values Table. The correct Formula Year will be selected using the PCFM year t selector on the User interface worksheet of the PCFM. ”</p>
30	4.40	<p>In step (viii) the text should be changed to clarify that the Type B value input must be the change to the tax liability allowances (not tax liabilities) including the iterative tax allowance on tax allowance factor. This is required to be consistent with the way the PCFM operates and paragraph 4.7.</p> <p>Paragraph to be amended to:</p> <p>“The aggregate changes to the licensee’s tax liability allowances determined in respect of all Type B trigger events (whether notified during Formula Year t-1 or on an earlier occasion) will be input into the yellow input cells on the ‘Tax Trigger’ row of the ‘B event value’ section in the appropriate Formula Year columns on the tax trigger worksheet. This value should include the iterative tax allowance on tax allowance factor referred to in paragraph 4.7.”</p>
31	4.40	<p>In step (x) we would suggest it be made clear that the allowance based on new inputs includes the Type A and Type B trigger events. The text should be amended to read:</p> <p>“The ‘tax allowance (pre-losses) before tax trigger’ referred to at step (iv) will be deducted from the ‘Tax allowance’ that has been calculated based on the new inputs (including both Type A and Type B trigger events).”</p>
32	4.40	<p>In step (xiii) the first reference to step (x) is incorrect, it should be (xi) as it is the absolute value of the adjustment that is compared to the deadband. See drafting suggestion below.</p>

Respondent details		NGG Distribution																													
No.	Page/Paragraph Ref	Comments																													
33	4.40	<p>In step (xiii) the “multiplied by -1” should be removed from <u>both steps</u> as it is incorrect. Also, the existing text is confusing as you could interpret the “multiplied by -1” as applying to the whole equation or just the deadband. Either way, the text should be updated. This is best illustrated by an example:</p> <p>Step (xiii) sub bullet (i)</p> <table border="1"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>70</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>-20</td> </tr> <tr> <td>Amount is negative so sub bullet (i) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1</td> <td>-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17</td> </tr> <tr> <td>The correct adjustment would have been -17</td> <td>-20 + 3 = -17</td> </tr> </table> <p>Step (xiii) sub bullet (ii)</p> <table border="1"> <tr> <td>Deadband</td> <td>3</td> </tr> <tr> <td>'Old' allowance calculated at step (iv)</td> <td>90</td> </tr> <tr> <td>New allowance (calculated at step (ix))</td> <td>100</td> </tr> <tr> <td>Result of step (x) (deduct old allowance from new calculation)</td> <td>10</td> </tr> <tr> <td>Amount is positive so sub bullet (ii) applies</td> <td></td> </tr> <tr> <td>Adjustment equals result of step (x) = 10 less the deadband multiplied by -1</td> <td>10 - (3x-1) = 10 - (-3) = 13 OR (10 - 3) x -1 = -7</td> </tr> <tr> <td>The correct adjustment would have been 7</td> <td>10 - 3 = 7</td> </tr> </table> <p>See drafting suggestion in next item</p>		Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	70	Result of step (x) (deduct old allowance from new calculation)	-20	Amount is negative so sub bullet (i) applies		Adjustment equals result of step (x) = -20 plus the deadband multiplied by -1	-20 + (3x-1) = -20 + (-3)= -23 OR (-20 + 3) x -1 = +17	The correct adjustment would have been -17	-20 + 3 = -17	Deadband	3	'Old' allowance calculated at step (iv)	90	New allowance (calculated at step (ix))	100	Result of step (x) (deduct old allowance from new calculation)	10	Amount is positive so sub bullet (ii) applies		Adjustment equals result of step (x) = 10 less the deadband multiplied by -1	10 - (3x-1) = 10 - (-3) = 13 OR (10 - 3) x -1 = -7	The correct adjustment would have been 7	10 - 3 = 7
Deadband	3																														
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Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
34	4.40 continued	<p>This paragraph should be amended to:</p> <p>“If the value calculated at step (xi) is greater than the deadband amount then:</p> <p>(i) if the amount obtained under step (x) is negative, the tax trigger adjustment is shown as that amount plus the deadband; or</p> <p>(ii) if the amount obtained under step (x) is positive, the tax trigger adjustment is shown as that amount minus the deadband amount.”</p>
35	4.42	In the second bullet the reference to “step (xi)” should be to “step (xiii) ”
36	4.53	<p>The explanation of how year end prices are calculated is incorrect. The current text says</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Relevant Year t-2 and inflate to year-end prices for Relevant Year t-2, using the arithmetic average of the RPI data for March and April of Relevant Year t-2; and”</p> <p>March and April of year t-2 are actually 11 months apart. This should be March of t-2 and April of t-1 so the text should be revised to:</p> <p>“The licensee’s indicative RAV (including any Shadow RAV) balance in 2009-10 prices as at 31 March in Relevant Year t-2 and inflate to year-end prices for Relevant Year t-2, using the arithmetic average of the RPI data for March of Relevant Year t-2 and April of Formula Year t-1; and”</p>
37	4.56	References to positive benefit test should read ‘positive tax benefit test’. The same applies to the sub-heading immediately beneath this paragraph.
38	4.57	The words “for the purposes of tax liability allowances” should be deleted. The relevant interest numbers in the PCFM also include non-core interest costs which are not used to calculate tax liability allowances but are part of the comparison used in the positive benefit test (by virtue of not being excluded from the actual costs)
39	4.58	To make the paragraph consistent with the final sentence of the previous paragraph, this paragraph should start, “ If the amount is zero or negative and therefore no positive tax benefit, the clawback is not triggered..... ”

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
40	4.58	<p>The purpose of this adjustment is to claw back the tax benefit received as a result of incurring excess interest costs. This benefit will have been received at the statutory rate of corporation tax applicable for the year concerned, not the rate that is hard coded into the PCFM. Since the calculation is performed outside the PCFM we would suggest that the statutory rate of corporation tax that applied in year t-2 should be used instead of the PCFM rate.</p> <p>To give an example, if the tax rate changed to 50% in 2015/16 the licensee would have an incentive to increase gearing and interest costs. £100m of extra interest costs would attract tax relief of £50m but the tax claw back would only claw back £21m (the PCFM uses 21%). The £21m will go on to have tax on tax applied but will still not claw back the £50m of benefit.</p> <p>It is also worth noting that a number of incentive schemes in the licence refer to the actual statutory rate of corporation tax in calculations so it would seem sensible to do the same thing with this calculation.</p> <p>The revised text would be: “If the amount is zero or negative and therefore no positive tax benefit, the clawback is not triggered and the value of TGIE is zero. If the clawback has been triggered, Ofgem will multiply the result in 4.57 by the statutory corporation tax rate applicable in the year in which excess interest costs were incurred to derive the licensee’s benefit figure which becomes TGIE.”</p>
41	4.62	Reference to ‘the model’ should read ‘the PCFM’
42	4.62	The first bullet point should begin, “Ofgem will re-perform the gearing level test and, if applicable, the positive tax benefit test to determine whether.....”
43	5.1	The word “Vanilla” should be put before WACC as it is the Vanilla WACC (as opposed to Pre-tax WACC) that is being described.
44	Table 6.1	The definitions of the ‘IRM’ and ‘RE’ terms appear to be indented.
45	6.6	Reference to ‘Totex Incentive Strength’ should read ‘Totex Incentive Strength Rate’ as this is the term referred to in the Glossary under the definition for the Funding Adjustment Rate and in Licence Condition 3B.
46	6.6	Reference to Funding Adjustment Rate should include a footnote as this is a defined term in the Glossary.
47	6.7	<p>The reference to “Opening Base Revenue Allowances” in the last sentence is incorrect and should be replaced with “recalculated base revenues” so the last sentence should read:</p> <p>“Applying the Funding Adjustment Rate to the over (or under spend) gives the amount that is added to (or subtracted from) the totex allowances included in recalculated base revenues. Wherever the term “Totex Incentive Mechanism Adjustment” is used in the Special Conditions, it means an adjustment under the mechanism described in this paragraph.”</p>

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
48	6.7	'correction' should read 'corrections'.
49	6.17	<p>Subsequent to Final Proposals being issued we have discussed with Ofgem whether the pension costs included in totex should be on a cash or accounting basis. Accounting standards require us (under a normal accruals basis) to charge costs to the income statement which do not necessarily represent cash costs but where the difference does not represent a short term timing difference. The discussion concluded that Ofgem would prefer us to remove the non cash accounting element from our reported costs. The totex definition does not yet reflect this discussion and needs to if we are to comply both with Ofgem's wishes and the reporting definitions.</p> <p>We have not yet agreed the correct form of words but one option would be to add the following bullet to the list of exceptions in paragraph 6.17:</p> <p>"The non cash element of current service pension costs charged to the income statement in accordance with accounting standards"</p>
50	6.22	The Handbook states "The items of expenditure included in each of the Totex sub-divisions set out in Table 6.2 are specified in the Cost and Revenue Reporting RIGs" This does not appear to be the case.
51	10.2	The Handbook correctly describes the way the PCFM treats the opening RAV adjustment, i.e. as an adjustment to 2013/14 RAV additions. However, this means that an opening balance adjustment will not impact on the regulatory depreciation for 2013/14 due to the fact that depreciation applies the year after addition to the RAV. It would make more sense for the adjustment to be a change to the opening RAV (and 2012/13 additions). 2012/13 additions are included in the PCFM.
52	10.3	Remove "as set out in this chapter". Such anomalous positions (almost by definition) are not set out in the chapter.
53	10.16	Please make reference to associated document b on page 2 as per the ET1 Handbook.
54	10.20	Reference to the 2006-07 one year price control should read 2007-08 , and reference to the GDPCR price control should read 'from 1 April 2008 to 31 March 2013'.
55	10.24	<p>In footnote 38 to this paragraph the reference to "regulatory tax allowances" should read "regulatory tax profits" as tax regulatory tax losses are off-set against profits rather than allowances.</p> <p>The footnote would then read: "A positive regulatory tax loss balance represents one or more price control tax benefits which have been obtained by the licensee and which may be subject to off-set against future regulatory tax profits. Regulatory tax losses should therefore not be confused with trading or group tax losses."</p>

Respondent details		NGG Distribution
No.	Page/Paragraph Ref	Comments
56	10.35(d)	The legacy calculation workbook (correctly) calculates the total change in true-up amount for all 8 years of RIIO-GD1 – which is then “spread” across 8 years to work out the annual true-up amount for 2013-14 and each of the other years of RIIO-GD1 - and so it is the change in this total amount that should be referred to here. The paragraph should therefore read, “ calculate the total true-up amount which should have applied in RIIO-GD1. ”
57	10.49	The use of the term “Opening Base Revenue Allowance” is not appropriate for 2012-13.
58	10.50	The TAR calculation in the latest legacy workbooks contains a gross up for corporation tax based on the 2013/14 corporation tax rate. This step is not described in the Handbook.
59	10.67	The FAR calculation in the latest legacy workbooks contains a gross up for corporation tax based on the 2013/14 corporation tax rate. This step is not described in the Handbook.
60	10.80	The CAR calculation in the latest legacy workbooks contains a gross up for corporation tax based on the 2013/14 corporation tax rate. This step is not described in the Handbook.
61	10.114	There is an additional step in the latest legacy workbooks which suggest that the IFIAR is 80% recoverable. This is not mentioned in the Handbook.
62	10.116	No mention of the time value of money adjustment included in the legacy workbooks
63	10.116	This legacy adjustment does not include an adjustment to gross up for tax. Is this the intention? Can this be explained in the Handbook?
64	10.122	There appear to be three steps missing to be consistent with the descriptions for the other legacy adjustments, i) re-basing to 2009-10 prices, ii) Time Value of Money Adjustment, and iii) grossing up for tax.
65	10.122 (a)	The IAEAR calculation in the latest legacy workbooks contains a gross up for corporation tax based on the 2013/14 corporation tax rate. This step is not described in the Handbook.
66	11.8	Add a footnote next to ‘Approved Market Price Report’ as this is a defined term in the Glossary.
67	Glossary	<p>In the definition of the GD1 PCFM the last sentence is incorrect. The PCFM does not calculate changes to the Opening Base Revenue Allowances. These Allowances never change. It calculates changes from Opening Base Revenue Allowances according to the licence definition.</p> <p>This should be replaced with: “The PCFM calculates appropriate changes from the licensee’s Opening Base Revenue Allowances through an Annual Iteration Process - see Chapters 1 and 2”</p> <p>A clearer version (to help avoid confusion) would be to replace “Opening Base Revenue Allowances” with “Base Distribution Network Transportation Activity Revenue”. The sentence would then be “The PCFM calculates appropriate changes to the licensee’s Base Distribution Network Transportation Activity Revenue through an Annual Iteration Process - see Chapters 1 and 2”</p>

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No.	Page/Paragraph Ref	Comments
68	Glossary	GD1 PCFM should read 'GD1 Price Control Financial Model' to be consistent with the ET1 Handbook.
69	Glossary	<p>In the definition of the MOD Term the sentence saying what MOD represents is incorrect. MOD does not represent a change to the Opening Base Revenue Allowances. These Allowances never change. It represents a change from Opening Base Revenue Allowances according to the licence definition.</p> <p>The relevant sentence should be replaced with: "It represents the incremental change from the licensee's Opening Base Revenue Allowance for the Formula Year concerned, ascertained in accordance with the methodologies set out in this Handbook."</p> <p>A clearer version (to help avoid confusion) would be to replace "Opening Base Revenue Allowances" with "Base Distribution Network Transportation Activity Revenue". The sentence would then be "It represents the incremental change to the licensee's Base Distribution Network Transportation Activity Revenue for the Formula Year concerned, ascertained in accordance with the methodologies set out in this Handbook."</p>
70	Glossary	Should the reference to the 'Incentive Strength' in section 'I' of the glossary refer to the 'Totex Incentive Strength Rate' as defined in Licence Condition 3B and as referenced elsewhere in the glossary (in the definition for the Funding Adjustment Rate).
71	Glossary	Reference to 'Allowance' in the definition of MOD should read ' Allowances'.