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| **WWU Final Determination** | | |
| **FDQ Query** | | |
| **Reference number** | WWU\_FDQ\_07 | |
| **Document Name** | Final Determinations GD licence Model | |
| **Topic/Activity:** | Tax clawback and 21/22 revenues | |
| **Question:** | Please treat as high priority  We ask if the change to the mechanism for forecasting allowances in the RIIO-GD2 Annual Iteration Process (AIP) would remove the T+2 lag to tax clawback adjustments ? If it does, this effectively accelerates negative revenue adjustments from clawback into 21/22 and 22/23 on top of negative revenue adjustments from clawback in those years from 19/20 and 20/21. [REDACTED].   1. In RIIO-1 the tax clawback adjustment impacted revenue on a two-year lag due to the calculation of MODt. In RIIO-2, the ADJ term is calculated on a one-year lagged basis. As a result, there may be a timing issue whereby RIIO-1 legacy clawback value (fed through the LMOD2 term) will overlap with the clawback calculated for the first year of GD2, which will be adjusted for in 2022/23 revenue. Note this overlap does not occur in the 2021/22 revenue year as the first GD2 AIP adjustment will apply to 2022/23 revenue.   The impact of the Tax clawback adjustment depends on when the input values (i.e. the adjusted net debt and tax deductible net interest costs) are included in the PCFM. It would be possible to defer the impact of any GD2 clawback adjustment by delaying the input of the variables by a year. This is something that we will be able to address through the development of the PCFM variable value guidance.  We note that there is no reference to tax clawback in the ‘PCFM input’ table on P131 of the Finance Annex.   1. The tax clawback is not referenced in the PCFM input table in the Finance Annex because it is not a PCFM input for RIIO-2. The GD2 PCFM contains the clawback calculation and so the inputs required are the adjusted net debt and the notional gearing values that were previously input into the tax clawback model. The Tax clawback value is an output of the GD2 PCFM.   We also refer to par. 11.70 of the Finance Annex which states (underlined and bold by WWU for emphasis):  *“While we note that any forecast will require an element of true up, this is likely to be smaller in magnitude than it otherwise would be if forecasts were not reflected in the PCFM.* ***We recognise that some networks have concerns over the practical implementation of this policy and we will work with them to clarify the process and ensuring that any new requirement is proportionate*** *and does not result in unnecessary administrative burden for Ofgem or for licensees”*  We are requesting that the T+2 lag for tax clawback is not removed in RIIO-GD2.  See answer to point 1.  For the avoidance of doubt, we also request confirmation from Ofgem that 2021/22 revenue charging to be determined by the current AIP which is near finalisation will not be affected by the updated RIIO-GD2 AIP process. We note that the draft PCFH document, table 2.1, did not refer to 21/22.   1. The legacy MOD value for 2021/22 will not be updated following the legacy AIP that was finalised at the end of 2020. As with all AIPs, if an adjustment is required to any of the GD1 PCFM variable values, these will be reflected in the legacy MOD value for the 2022/23 year. | |
| **Confidential** | Yes | |
| **FDQ raised by** | WWU | |
| **Date Sent** | 11/12/2020 | |
| **Ofgem Response** | Answers provided in red text above. | |