

GT SECTOR	
<b>REFERENCE NUMBER:</b>	<b>CATEGORY:</b>
<b>LICENCE CONDITION NUMBER:</b> (if relevant):	SpC 7.8
<b>TITLE:</b>	Close out of the RIIO-GT1 Stakeholder Satisfaction Output
<b>RELEVANT LICENCE CONSULTATION QUESTIONS</b> (if any):	
<b>RELEVANT ISSUES LOG:</b>	
<b>POLICY ISSUES</b>	
	<ul style="list-style-type: none"> <li>There are inconsistencies between the GT and ET licences in the treatment of close out of this incentive. In GT the licence refers back to calculations as per the licence in force on 31 March 2021, that is the RIIO-T1 licence, whereas in the ET equivalent licence condition (SpC 7.7), the algebra has been introduced to calculate these lagged terms.</li> </ul>
<b>DRAFTING ISSUES</b>	
<ul style="list-style-type: none"> <li>General</li> </ul>	<ul style="list-style-type: none"> <li>In T1 this incentive is collected on a 2 year lag. For example, performance (scores for SSS element, reward for SER element) relating to FY19 would feed into revenues in FY21. So this means FY20 and FY21 performance would need to flow into the LARt T2 close out term to enable us to get the revenues. The 7.8 condition in the drafting doesn't make this all that clear.</li> <li>The T2 condition states it will <i>cease to have effect on 1<sup>st</sup> April 2022</i>, which is FY23 so we would have all incentive performance would be available. However, it is implied that both years of performance relating to FY20 and 21 will flow into FY22. The licence needs to clarify that it's both years' worth of incentives that will feed this SSCO term in FT 22 and FY23, respectively.</li> <li>The conditions for LCMIR and LCMCA (SpC 7.13 and 7.14), which also have a 2 year lag state that the revenues will continue to flow on the two year lag (rather than all being bundled into the first year of T2 as the above suggests for the close out of the stakeholder incentive). The conditions state <i>'The effect of this condition is to close out the RIIO-GT1 Incentive in respect of Entry Capacity and Exit Capacity Constraint Management, such that revenue in Regulatory Years commencing 1 April 2021 (FY22) and 1 April 2022 (FY23) reflect the licensee's performance under that incentive in Regulatory Years commencing 1 April 2019 (FY20) and 1 April 2020 (FY21) respectively. 7.13.4 For Regulatory Years commencing on or after 1 April 2023 (FY24), the value of LCMIRt is equal to zero.'</i> The</li> </ul>
<ul style="list-style-type: none"> <li>7.8.1</li> </ul>	

<ul style="list-style-type: none"> <li>7.8.3</li> <li>7.8.1</li> <li>7.8.3</li> </ul>	<p>revenues and timing of receipt for the Close Out of the RIIO-GT1 Stakeholder Satisfaction Output should be similarly defined.</p> <ul style="list-style-type: none"> <li>There needs to be consistency with how the 2 year lagged incentives are dealt with within licences and across licences.</li> <li>Line 3 should refer to “(the Transportation Owner legacy adjustments term)”</li> <li>7.8.3 should read “For the Regulatory Year commencing on 1 April 2021 the value of SSCO shall be determined in accordance with Part A of Special Condition 2C (Stakeholder Satisfaction Output) of the licence...”</li> </ul>
<b>FINANCE ISSUES</b>	
	<ul style="list-style-type: none"> <li>The drafting refers back to the T1 licence for calculation of these items, the values per the T1 calculations are in nominal price base (using RPI). It is not clear from the drafting how Ofgem intends to translate this to 2018/19 price base for input into the PCFM, although we note the formula within the PCFH (paragraph 2.9) to convert to 2018/19 price base.</li> <li>The T1 formula utilises ‘I’ for income earned in FY21, the average specified rate to reflect Time value of Money. If we are to utilise this formula for the incentive values that fall into T2 then this would mean using ‘I’ for Time Value of Money. However, as the Draft Determinations propose the potential use of SONIA in RIIO-2 for all Time value of Money calculations, the use of ‘I’ for legacy incentives would appear to diverge from RIIO-2 policy. For legacy MODs Ofgem has used the T2 WACC policy, therefore it would be inconsistent to use T1 Time value of money policy for incentives, rather than RIIO-2 policy. The use of either I or SONIA should be explicitly referenced in the T2 licence drafting to enable transparency and reduce any ambiguity.</li> </ul>
<b>SUPPORTING INFORMATION</b>	
<b>OFGEM ENGAGEMENT:</b>	