

CROSS SECTOR	
REFERENCE NUMBER:	CATEGORY: Addition
LICENCE CONDITION NUMBER: <i>(if relevant):</i>	ET SpC 7.1-7.6 GT SpC 7.1- 7.5 and 7.9 - 7.12
TITLE:	Legacy adjustments
RELEVANT LICENCE CONSULTATION QUESTIONS <i>(if any):</i>	
RELEVANT ISSUES LOG:	
POLICY ISSUES	
	<ul style="list-style-type: none"> Following the COVID-19 reprioritisation exercise carried out by Ofgem in June 2020, and with support of both parties, the RIIO 1 closeout consultation was delayed from 2020 until 2021. We note that the current licence drafting seems to reflect this – it deals with the RIIO-1 legacy items which are mechanistic in their nature and mostly are a result of items with a 2-year lag within the T1 licences (with the exception of SpC 7.6 Close out of the RIIO-1 Network Outputs). There are, however, closeout items not reflected in the ET or GT licence which will need to be addressed through a separate closeout consultation and the scope of this is yet to be agreed with Ofgem. There needs to be opportunity within the licence and/or PCFM to enable recovery of such items. It is not clear how Ofgem intends to address these given the delay to the closeout consultation. There is currently no explanation of Ofgem's thinking in the September consultation document and no licence drafting to reflect these items. We do however note that there are inputs within the PCFM for 'RIIO-2 legacy price control adjustments to allowed revenue' and 'RIIO-2 legacy price control adjustments to RAV'. It could be Ofgem's intent to deal with the additional close out items through use of these inputs, but this is not clear within the licence or PCFH. We note the PCFH has a section on Legacy which is to be updated. We request that Ofgem make clear their current approach in the licence and the next steps on the consultation to ensure a smooth transition across the price controls. There appears to be an inconsistency across sectors for the calculation of LPTt, the ET licence refers specially to LF and TPD therefore excluding RB and ITC. Whereas the GT licence refers to PTt as a whole. The ET licence requires amending to ensure all relevant pass through terms are included within the close out.

DRAFTING ISSUES	
<ul style="list-style-type: none"> General 7.1.2 7.2.3 7.3.1 7.3.2 7.4 7.4.1 7.4.3 7.5.1 7.5.3 7.9.1 7.10.1 7.10.1 7.10.1 7.10.2 7.10.3 	<ul style="list-style-type: none"> Comments on SpC 7.6 Close out of the RIIO-1 Network Outputs are provided separately. Comments on SpC 7.7 (GT) 7.11 (ET) Close out of NIC are provided separately. Note there should not be a Close out mechanism for NIC within the ET licence as this now sits with ESO following legal separation. Comments on SpC 7.8 (GT) Close out of GT RIIO-1 Stakeholder Satisfaction Output are provided separately. Comments on Close out of ET RIIO1 Incentives (SpC 7.7-7.10) are provided separately. <p><u>Comments on the NGGT drafting (SpC 7.1-7.5. and SpC 7.9.-7.12.)</u></p> <ul style="list-style-type: none"> There is no SpC 7.1.1 and the numbering should be updated. Line 3 of SpC 7.2.3 should refer to “Condition 2B (Calculation of allowed pass-through items)” SpC 7.3.1 should begin with “the purpose of this condition is to set out”. Insert “the term” in front of LMOD in line 2 SpC 7.3.2 should begin with “the effect of this condition”. We suggest that this should also explain the impact on revenue in terms of Regulatory Years, as set out in other close out condition introductions. SpC 7.4 should refer to “legacy k correction term” throughout In SpC 7.4.1 insert “term” in front of LAR in line 2 SpC 7.4.3, should read “in accordance with Part F of Special Condition 2A (Restriction of the NTS Transportation Owner Revenue) of this licence...” In SpC 7.5.1, insert “term” in front of LAR in line 3. SpC 7.5.3, should read “ the value of the term $LTRU_t$ has the value of TRU_t as determined in accordance with part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) of this licence”... SpC 7.9.1 should cross refer to SpC 2.5. SpC 7.10.1, should begin with “The purpose of this condition is to set out” SpC 7.10.1, should refer to SOLMOD in line 2 and SpC 7.10.1, should cross refer to SpC 2.5 in the final line SpC 7.10.2 Should begin with “the effect of this condition is to...” SpC 7.10.3 should refer to SOLMOD

<ul style="list-style-type: none"> • 7.11 • 7.11.1 • 7.11.3 • 7.12.1 • 7.12.3 	<ul style="list-style-type: none"> • SpC 7.11 should refer to “K correction” throughout not just “correction” • Insert “term” in front of SOLAR and cross refer to SpC 2.5 in line 4 of SpC 7.11.1 • Correct title of Special Condition 3A is “Restriction of NTS System Operation Revenue” in SpC 7.11.3. • Insert “term” in front of SOLAR and cross refer to SpC 2.5 in line 4 of SpC 7.12.1. • In SpC 7.12.3, the correct title of Special Condition 3A is “Restriction of NTS System Operation Revenue”
<ul style="list-style-type: none"> • SpC 7.1.2 • SpC 7.2, Part A heading • SpC 7.2.3 • SpC 7.3.1 • SpC 7.3.2 • SpC 7.4.4 • SpC 7.5.3 	<p><u>Comments on the NGET drafting (SpC 7.1-7.6)</u></p> <ul style="list-style-type: none"> • In SpC 7.1.2: <ul style="list-style-type: none"> ○ The definition of LP_t should refer to the “<i>RIIO-ET1 pass through items close out term</i>” as in SpC 7.2. ○ The definition of LK_t should refer to the “<i>legacy correction term</i>” as in SpC 7.4. ○ The definition of $LEDR_t$ has a missing bracket. • The Part A heading in SpC 7.2 references the Reliability Incentive close-out term rather than the “RIIO-ET1 Pass-through items close out term”. • In SpC 7.2.3, <ul style="list-style-type: none"> ○ As noted above, the ET licence requires amending to ensure all relevant pass through terms are included within the close out. ○ the definition of LLF_t refers to ‘value of LF_t determined in accordance with Part B of Special Condition 3B’. This is an incorrect reference – it should be “Part C of Special Condition 3B” as this calculates the licence fee adjustment term (LF_t). • SpC 7.3.1 should begin with “...The purpose of this condition is to set out...”. • SpC 7.3.2 should begin with “...the effect of this condition...”. We suggest that this should also explain the impact on revenue in terms of Regulatory Years, as set out in other close out condition introductions. • In SpC 7.4.4, other conditions use the phrase “<i>equal to zero</i>”. • SpC 7.5.3 should read “ the value of the term $LTRU_t$ <u>has the value of</u> TRU_t as determined in accordance with Part C of Special Condition 3A...”.

FINANCE ISSUES	
<ul style="list-style-type: none"> General PCFM SpC 7.3 	<ul style="list-style-type: none"> A number of the two year lagged Legacy Pass Through items, calculated as per the T1 licence will be uplifted using RPI and will be in 2019/20 and 2020/21 price base based on RPI. The RIIO-2 legacy licence drafting does not revert this to 2018/19 price base. However, it is noted that there is a formula within the PCFH (paragraph 2.9) to convert into 18/19 price base. We require clarification from Ofgem that the price base conversion paragraph will be applied and request that this linkage between the licence and the PCFH formulae is made clear. Where formula utilises PVF (1+WACC), the WACC to use would need to be agreed with Ofgem and explicitly written into the licence to avoid any future ambiguity. The PCFM includes inputs within the PCFM for 'RIIO-2 legacy price control adjustments to allowed revenue' and 'RIIO-2 legacy price control adjustments to RAV', it is not clear from the current licence drafting or PCFH how Ofgem intends to use these inputs. The PCFM does not include specific inputs for all of the LAR terms but does include inputs for legacy MOD terms. These inconsistencies with presentation and reporting of information of the individual legacy terms within the PCFM have been raised in the PCFM template. National Grid notes within this condition that Ofgem will direct revisions to the LMOD coinciding with the annual iteration process. What is not clear, is how many times this revision could occur. National Grid is currently working with Ofgem to agree the LMOD1 and LMOD2 for use in Final Determinations. LMOD1 is based on 2020 performance and the expectation is that this would not change, as is the case for all MODs once agreed through an AIP. LMOD2 is a forecast and is based on a 2021 forecast and so we would expect this MOD to be finalised in November 2021, as part of an AIP which would include any directed allowances up to November 2021. In the event any allowances are directed after this, we would expect them to form part of either the Legacy Revenue or Legacy RAV within the PCFM. At this stage it is not clear how the Legacy Revenue or Legacy RAV inputs are intended to be used or agreed, as mention in the policy section above.

<ul style="list-style-type: none"> • SpC 7.9 • SpC 7.9 • SpC 7.10 • SpC 7.13 and 7.14 	<p><u>The following comments are in relation to NGG:-</u></p> <ul style="list-style-type: none"> • The definition of the SOLAR term in paragraph 7.9.2 includes a LCMt term which is not further defined within the remainder of the paragraph. The detailed definitions also include LCMIRt and LCMCA terms which although detailed in paragraphs 7.13 and 7.14, respectively are not included as components of the SOLARt value. • The PCFM does not include specific inputs for all of the SOLAR terms but does include inputs for legacy SOLMOD terms. These inconsistencies with presentation and reporting of information of the individual legacy terms within the PCFM have been raised in the PCFM template. • National Grid notes within this condition that Ofgem will direct revisions to the LMOD coinciding with the annual iteration process. What is not clear, is how many times this revision could occur. National Grid is currently working with Ofgem to agree the LMOD1 and LMOD2 for use in draft determinations. LMOD1 is based on 2020 performance and the expectation is that this would not change, as is the case for all MODs once agreed through an AIP. LMOD2 is a forecast and is based on 2021 forecast and so we would expect this MOD to be finalised in November 2021, as part of an AIP which would include any directed allowances up to November 2021. In the event any allowances are directed after this, we would expect them to form part of either the Legacy Revenue or Legacy RAV within the PCFM. At this stage it is not clear how the Legacy Revenue or Legacy RAV inputs are intended to be used or agreed, as mention in the policy section above. • Both the LCMIR (7.13) and LCMCA (7.14) terms do not feed into to any of the terms within the SOLARt formula in paragraph 7.9.2. The overall SOLAR formula in 7.9.2 contains a discrepancy between the algebra itself and the description of the terms. <p>SOLARt=SOLMODt+SOLKt+SOLTRUt+LCMt</p> <p>where:</p> <table border="1"> <tr> <td>SOLMODt</td><td>has the value in sheet X of the GT2 Price Control Financial Model unless the Authority directs otherwise under Special Condition 7.10 (System Operator Legacy MOD).</td></tr> <tr> <td>SOLKt</td><td>is derived in accordance with Special Condition 7.11 (System Operator legacy K correction);</td></tr> <tr> <td>SOLTRUt</td><td>is derived in accordance with Special Condition 7.12 (System Operator legacy TRU term);</td></tr> <tr> <td>LCMIRt</td><td>is derived in accordance with Special Condition 7.13 (Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue); and</td></tr> </table>	SOLMODt	has the value in sheet X of the GT2 Price Control Financial Model unless the Authority directs otherwise under Special Condition 7.10 (System Operator Legacy MOD).	SOLKt	is derived in accordance with Special Condition 7.11 (System Operator legacy K correction);	SOLTRUt	is derived in accordance with Special Condition 7.12 (System Operator legacy TRU term);	LCMIRt	is derived in accordance with Special Condition 7.13 (Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue); and
SOLMODt	has the value in sheet X of the GT2 Price Control Financial Model unless the Authority directs otherwise under Special Condition 7.10 (System Operator Legacy MOD).								
SOLKt	is derived in accordance with Special Condition 7.11 (System Operator legacy K correction);								
SOLTRUt	is derived in accordance with Special Condition 7.12 (System Operator legacy TRU term);								
LCMIRt	is derived in accordance with Special Condition 7.13 (Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Incentive Revenue); and								

	LCMCAt	is derived in accordance with Special Condition 7.14 (Close out of the RIIO-GT1 Constraint Management Cost Adjustment).
	There needs to be a condition that states how LCMIR and LCMCA make up the LCM term, or the LCM term with SOLAR needs to be replaced with LCMIR and LCMCA.	
SUPPORTING INFORMATION		
OFGEM ENGAGEMENT:		