

ET Sector	
REFERENCE NUMBER:	CATEGORY: Amendment
LICENCE CONDITION NUMBER: <i>(if relevant):</i>	SpC 7.7
TITLE:	Close out of the RIIO-ET1 Stakeholder Satisfaction Output
RELEVANT LICENCE CONSULTATION QUESTIONS <i>(if any):</i>	
RELEVANT ISSUES LOG:	
POLICY ISSUES	
<ul style="list-style-type: none"> SpC 7.7.21, SpC 7.7.27 (the formulae) 7.7.22 (end date) 	<ul style="list-style-type: none"> On SpC 7.7.21 and SpC 7.7.27: <ul style="list-style-type: none"> We propose that the formula should be cross-referenced to the T1 licence as in other close out conditions, with any changes required set out in the T2 licence conditions. (There are a number of issues with the formula set out in the draft, but comments we make on the formula below are subject to this general point.) In the formula, we are not clear on changes made from the T1 licence and these are not explained in the consultation paper. An example includes changes to SSS_t. We request further explanation on why these changes are justified. The formula excludes the ‘average specified rate’ variable from the ET1 licence. The response from Ofgem to an issue raised in previous log stated that the formula is not required as the ‘average specified rate’, which is in the T1 licence calculation, will be applied at a global level in RIIO-T2. However, how ‘average specified rate’ will be treated is not clear and this should be clarified and set out within the licence drafting. In SpC 7.7.22: <ul style="list-style-type: none"> We do not agree that the licence condition should cease to have effect from 1 April 2022. This is inconsistent with other close out licence conditions. If the intention is to make clear that there will be no $LSSO_t$ following the first year(s) of RIIO-T2, we suggest “<i>For Regulatory Years commencing on or after [1 April 2023], the value of $LSSO_t$ is equal to zero</i>”. The current drafting causes an issue with SpC 7.1.2, which continues to refer to SpC 7.7 for the entire period. In any case, we consider that Ofgem should retain the two year lag on this incentive, to be consistent with other incentives.

DRAFTING ISSUES	
<ul style="list-style-type: none"> • General • SpC 7.7.20 • SpC 7.7.21 • SpC 7.7.24 • SpC 7.7.27 • SpC 7.7.27 	<ul style="list-style-type: none"> • It appears to us that there should be a provision to make clear that, in the absence of a direction, SER_t has a value equal to zero. • SpC 7.7.20 states that <i>‘The effect of this condition is to close out the RIIO-ET1 Stakeholder Satisfaction Output.’</i> This does not include reference to the affected years which is included in other comparable licence conditions. We suggest adding <i>“, such that revenue in the [Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflect] the licensee’s performance under that incentive in Regulatory Years commencing on 1 April 2019 and on 1 April 2020”</i>. • As flagged a number of times in working group meetings and issue logs, in RIIO-T1 this incentive is collected on a 2 year lag. For example performance (scores for SSS element, reward for SER element) relating to 2018/2019 would feed into revenues in 2020/2021. So this means 2019/2020 and 2020/2021 performance would need to flow into the RIIO-T2 close out term to enable us to recover the revenues for the incentive. The SpC7.21 condition in the drafting only references performance in regulatory year 2020/2021 and this needs to be corrected. In particular: <ul style="list-style-type: none"> ○ The SER_t definition only relates to 2020/21 but there will also need to be an adjustment for 2019/2020 performance. ○ The $SSSt$ definition only relates to 2020/21 but there will also need to be an adjustment for 2019/2020 performance. • SpC 7.7.24 currently reads as though the relevant base revenue is from 2021/2022, which is not intended. This is linked to the comments below about the notation used. • If the formula is retained in the T2 licence, we consider that the notation issue needs much more consideration from the specific perspective of a close out provision. In Part D, there is an inconsistency in notation of years with both t and $t-2$ included in the proposed calculation: <ul style="list-style-type: none"> ○ the definition for $CSSAF(t)$ has one variable referring to $t-2$ and the rest being year t which then makes it a different calculation to that in the ET1 licence, ○ there is also an inconsistency in definition for $SSSPRO_{t-2}$ with the variable in the formula having a different notation, $SSSPRO_t$.

<ul style="list-style-type: none"> Definitions 	<ul style="list-style-type: none"> Some of the definitions in SpC 7.7.27, such as Customer Satisfaction Survey, contain references to parts of the licence which will no longer be in effect from 1 April 2021. This is a further reason for cross-referencing to the T1 licence. The definition of Regulatory Year does not currently allow for the definition to apply to years before the 2021/2022 year, whereas the condition refers to earlier years. The definition needs to be updated so that it can cover 2019/2020 and 2020/2021. "(t-1)" may also be confusing.
FINANCE ISSUES	
<ul style="list-style-type: none"> SpC 7.7.21, SpC 7.7.27 	<ul style="list-style-type: none"> On SpC 7.7.21 and SpC 7.7.27: <ul style="list-style-type: none"> 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. 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 it would mean using 'I' for Time Value of Money. However as the draft determinations propose the potential use of SONIA in T2 for all Time value of Money calculations, the use of 'I' for legacy incentives would appear to diverge from T2 policy. For legacy MODs Ofgem have used the T2 WACC policy, therefore it would be inconsistent to use T1 Time value of money policy for incentives, rather than T2 policy. The use of either I or SONIA should be explicitly referenced in the T2 licence drafting to enable transparency and remove any ambiguity.
SUPPORTING INFORMATION	
OFGEM ENGAGEMENT:	