

GT SECTOR	
REFERENCE NUMBER:	CATEGORY:
LICENCE CONDITION NUMBER: <i>(if relevant):</i>	SpC 7.14
TITLE:	Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management Cost Adjustment
RELEVANT LICENCE CONSULTATION QUESTIONS <i>(if any):</i>	Q27 – captured under generic question on views of the proposals for changes to GT licence
RELEVANT ISSUES LOG:	
POLICY ISSUES	
DRAFTING ISSUES	
<ul style="list-style-type: none"> Linkage to Special Condition 7.9 7.14.3 	<ul style="list-style-type: none"> Neither the LCMIR (7.13) nor the LCMCA (7.14) term feed into the SOLAR Term in 7.9 correctly due to a discrepancy between the formula terms in 7.9 and the definitions used. See comments on Special Condition 7.9 for further details. In line 2 replace “equivalent to” with “has the value of” for consistency with 7.11 and 7.12
FINANCE ISSUES	
<ul style="list-style-type: none"> 7.14.3 7.13 	<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 RIIO-1 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. 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. $SOLARt = SOLMODt + SOLKt + SOLTRUt + LCMt$ where:

	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	
	LCMCA _t	is derived in accordance with Special Condition 7.14 (Close out of the RIIO-GT1 Constraint Management Cost Adjustment).	
	<ul style="list-style-type: none">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:			