Consultation on green recovery reconciliation models

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1. End of period adjustments for green recovery delivery

1.1 Introduction

In our draft green recovery determinations, we noted that all the companies that have submitted green recovery proposals are seeking to recover at least part of their green recovery allowance in later periods. To facilitate this, we proposed to make a midnight adjustment to the RCV at PR24, which will allow efficient costs incurred in delivering the schemes to be recovered from customers.

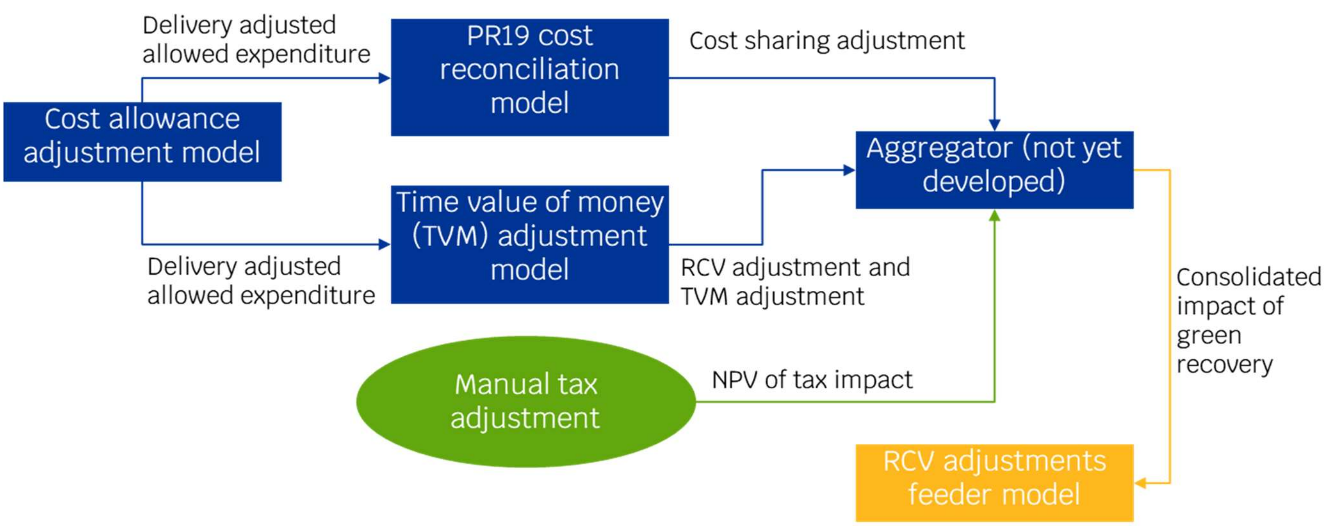
Section A6 of our draft determinations outlined the formulae that we proposed to use to make these end of period funding adjustments. We have now developed models to provide more detail about how these calculations will be performed in practice.

It is important to note that these models are based on the policies that we originally consulted on in our draft determinations. If these polices are updated, we would update the models accordingly.

1.2 Models overview

The diagram below shows the three models that we have developed and how they interact.

Figure 1.1 Model flow



1.3 Green recovery cost allowance adjustment model

We stated in our green recovery draft decisions that customers should not pay for schemes that are not fully delivered, and as such, companies will only receive funding proportional to the amount of schemes that are delivered. To accurately calculate cost sharing and time value of money adjustments, these must be based on a cost allowance that is adjusted for scheme delivery.

This model calculates an adjusted cost allowance for the green recovery schemes, based on expected delivery by 31st March 2025. Where a company is forecasted to reach less than full delivery of a scheme by this date, the model adjusts the cost allowance the company received for this scheme downwards, in proportion to the percentage of the scheme that is undelivered. It does this at an individual scheme component level, before aggregating to a scheme and then price control level. This adjusted cost allowance is then used as an input by the cost sharing model and green recovery time value of money adjustment model to calculate cost sharing and time value of money adjustments.

1.4 Green recovery PR19 cost reconciliation model

The PR19 cost reconciliation model has been updated to include a cost sharing element for green recovery expenditure to share any under/over performance with customers.

The mechanism works in the same way as the standard cost reconciliation in that, when a company over or underspends its allowance during the price control period, it will share the over or underspend with customers through the end of period reconciliation.

The mechanism takes the total variance between green recovery expenditure and the delivery adjusted green recovery allowance found in the green recovery cost allowance adjustment model. This variance is apportioned across the expenditure profile incurred to allow for a time value of money adjustment to be applied to the variance.

The appropriate sharing rate is then applied to the total variance after the time value of money adjustment to calculate the cost sharing adjustment to be applied at PR24.

1.5 Green recovery time value of money adjustment model

This model compares revenue received in period to fund the green recovery with allowed expenditure. The allowed expenditure is expenditure adjusted to take account of delivery of schemes. It makes an adjustment to RCV to reflect the difference between revenue received and delivery adjusted allowed expenditure.

It also calculates a time value of money adjustment for green recovery expenditure. The time value of money approach mirrors that used in the PR19 cost reconciliation model.

1.6 Request for company views

We would welcome company views on these draft green recovery models.

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