

To:

Electricity Distribution,  
Gas Distribution, Gas  
Transmission, Electricity  
Transmission; Network  
Operators; and  
Stakeholders

Date: 01 April 2022

Dear Company Secretaries and Stakeholders,

## **Proposal to modify the Regulatory Instructions and Guidance ("RIGs") for RIIO-2**

We propose to make modifications to RIGs to introduce:

- the RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance ("RFPR RIGs") for Electricity System Operator, Electricity Transmission, Gas Distribution and Gas Transmission licensees.

Please find enclosed the Notices setting out our proposed changes issued pursuant to the relevant Licence Conditions for each sector.

### **RFPR RIGs**

The RFPR RIGs outlines the reporting requirements and sets out instructions and guidance for each licensee regarding the RFPR template.

As part of the enclosed Notices, we provide the following documents:

- RFPR RIGs guidance – a "clean" version; and
- RFPR RIGs template.

### **Proposed modifications**

We are proposing a number of updates and modifications to the RIIO-1 RFPR template and guidance to align them with the RIIO-2 special licence conditions and Price Control Financial Model (PCFM). These include:

- Labelling changes and updates to variable values
- Updates to inputs data to reflect the new price control parameters
- Removing calculations that are no longer required under the new price controls
- Adding calculations and sections to reflect changes to the PCFM; and,
- Consolidating, removing redundancies and re-arranging data, where appropriate.

The reason for these changes is to reflect the new policies that we have implemented as part of our RIIO-2 Final Determinations and to align the terminology and calculations within the RFPR with the RIIO-2 licence so that we are able to gather the relevant data required to administer and monitor the RIIO-2 price controls.

As well as this, we are proposing to introduce some new sections to the RFPR template and some new requirements for how to fill these out in the RFPR RIGs. These new areas are set out below, along with our justification for them.

### **Corporate Governance**

We propose to introduce a new section on Corporate Governance, in the RFPR RIGs and template to complement the implementation of the disclosures on executive remuneration and dividend policies that were previously consulted on under Draft Determinations<sup>1</sup> and confirmed in Final Determinations<sup>2</sup>.

We believe transparency in how network companies operate can lead to greater: (i) accountability, enabling consumers and other stakeholders to better engage and scrutinise licensees' actions and performance; and (ii) confidence that the regulatory regime is protecting consumers' interests. We are therefore consulting on updated RFPR RIGs which implement the decision from the Final Determinations, alongside introducing new non-financial corporate governance disclosures.

These additional non-financial disclosures, which aim to improve transparency relating to corporate structures, governance processes and decision-making, relate to the following areas:

- **Ownership**- details of corporate ownership provides context for wider performance reporting by enabling understanding of licensees' group structures and parent company relationships with the licensees.
- **Reserved matters**- transparency on where decision-making sits engenders trust in the licensee, allowing stakeholders to better understand the role of licensees' parent

<sup>1</sup> [Draft determinations - finance.pdf \(ofgem.gov.uk\) pages 167-170](#)

<sup>2</sup> [RIIO-2 Final Determinations – Finance Annex \(REVISED\) \(ofgem.gov.uk\), see pages 139-140](#)

companies, as relating to the activities of the licensee. We are consulting on disclosure requirements in particular areas of relevance to wider stakeholders, to enhance accountability.

- **Board composition**- to provide clarity on board member tenures and the balance of shareholder, executive and independent director representation, and aid visibility of licensees' compliance with the 'sufficiently independent director' (SID) licence conditions<sup>3</sup>
- **Committee structures**- disclosures on which board committees are sitting at licensee level increases transparency relating to decision-making processes.

The proposed addition of these requirements into the regulatory reporting framework follows our recent engagement with the chairs and SIDs of licensees to better understand the arrangements that licensees have in place to ensure effective board leadership, governance, and transparency.<sup>4</sup>

### **Profit Reconciliation sheet**

We are proposing to introduce a profit reconciliation sheet, which sets out the licensees' revenues and costs in the format of a profit and loss statement and reconciles regulated network profit to profit in the statutory accounts.

The reason for introducing this section is that it consolidates the revenue and expenditure reconciliations that were previously captured in the RIIO-1 RFPR template and sets out a full reconciliation from regulated profit to the profit in the company statutory accounts. This will help Ofgem understand the main drivers of profit differences between the regulatory and statutory basis.

### **Bi-annual RFPR Submission**

We are seeking views on potentially introducing a requirement for a second publication and submission of the RFPR, following the November Annual Iteration Process (AIP).

Currently, the RFPR is published on 31 August<sup>5</sup> following each regulatory year and due to the timing of the AIP, the data within the RFPR reconciles to the PCFM that was published in

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<sup>3</sup> Operators of GB's gas and electricity transmission and distribution networks are required under their licences to appoint at least two SIDs. This requirement was introduced in 2014 as part of a range of enhancements to the licence conditions, to protect consumers.

<sup>4</sup> In July 2021 we set out our intent to engage with licensee company chairs and sufficiently independent non-executive directors (SIDs) on these matters: <https://www.ofgem.gov.uk/sites/default/files/2021-07/20210709%20Board%20leadership%20letter%20Martin%20Cave.pdf>

<sup>5</sup> In RIIO-1 the submission date was 31 July.

the previous November AIP. This results in discrepancies between the data in the published RFPR and that in the most recently published PCFM.

The reason we require the RFPR to be published by August is to provide stakeholders with a view of network company performance relatively soon after the end of the regulatory year.

Through our continued engagement with licensees, we have discussed introducing a requirement for a second publication of the RFPR following the November AIP. It is our view that a second publication of the RFPR in December, which aligns to the PCFM published at the most recent November AIP (as opposed to an RFPR that reconciles with the prior period's AIP PCFM) would provide greater clarity for stakeholders and would seek to avoid any confusion arising as a result of discrepancies between two published models.

As this is the first year of implementation for the RIIO-2 RFPR, and we are proposing to introduce a number of new areas, some network companies raised concerns over the additional regulatory burden resulting from the combination of new reporting requirements and a second submission and publication of the RFPR.

While we do see value in having a second RFPR publication that would provide an updated view of network company performance that can be tied to the published PCFM, we have listened to companies' concerns and propose to potentially revisit this proposal in the future.

In the meantime, we are seeking feedback on this potential proposal and in particular are keen to understand any practical issues with a proposed second submission in December.

#### **Updated RFPR template to include new debt worksheets – Annex 1**Draft

RFPR template-new debt sheets.xlsx.

**Associated Guidance for new debt worksheets – Annex 2**-Draft RFPR supplementary guidance -new debt sheets.docx.

We are seeking views on some proposed changes to the way we approach embedded debt and interest reporting in the RFPR template.

We have included Annex 1 and Annex 2 (Work in Progress) alongside the RFPR RIGs template and guidance for feedback only, at this stage.

The main proposed changes to the template are as follows:

- **F6 - Debt Dataset:** added dataset sheet for embedded debt instruments reporting.
- **F7 - Data Validation:** added supporting sheet with dropdowns required to populate the dataset sheet and data validation checks.

- **F3 - Fixed Rate Debt, F4 - Floating Rate Debt, F5 - Inflation Linked Debt:** added detailed calculation sheets to derive, for each instrument reported in the dataset, debt volumes and interest payment amounts.
- **I1 - Universal Data:** added sheet with annual inflation and interest rate data. This could be merged with the pre-existing **Data** sheet.
- **I2 - Monthly Inflation:** added sheets with historic and forecasted monthly inflation rates and price indices. These are needed to derive the annual inflation rates, as well as for some detailed inflation linked debt calculations.
- **R6a - Net Debt input:** tab restructured and simplified, so the main debt volume aggregates and summary indicators are built using tabs **F3, F4** and **F5**. Debt is aggregated following a revised categorisation system, as per ED2 BPDT.
- **R6 - Net Debt:** the only relevant change to this tab is the reclassification of debt in the "Total Debt per Statutory Accounts" at the top of the sheet, consistently with **R6a**.
- **R5a - Financing input:** interest payments are aggregated by debt category in the table at the top of the sheet, and calculated from **F3, F4** and **F5**. The associated cash flow reconciliation table is also simplified accordingly.
- **R5 - Financing:** no change.

We are proposing to make these changes to the RFPR template in the future to consolidate and rearrange the debt and interest input data that we collect. For now we are simply seeking feedback on this proposed change in approach and whether it would pose any practical problems.

The reason for proposing the changes to the debt and interest sheets set out in Annex 1 is to seek to improve the quality of embedded debt data collection, as well as increase transparency on how debt amounts, interest costs and the resulting financial performance are calculated, based on the submitted data.

## Tax Reconciliation

We are proposing to introduce a tax reconciliation sheet, the objective of which is to highlight differences between a licensee's Corporation Tax return (CT600) and the notional tax allowance in the PCFM and to enable Ofgem to better understand these differences.

This reconciliation brings together information from the licensees' statutory accounts, CT600 and the notional tax calculation from the PCFM, in a format that is consistent across licensees and can be better understood by Ofgem.

The reason for proposing to introduce this tax reconciliation is to enact the policy that we set in our Final Determinations<sup>6</sup> and to implement the process that is set out in chapter 6 of the Price Control Financial Handbook for all sectors<sup>7</sup>.

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<sup>6</sup> See Final Determinations Finance Annex, table on page 92.

<sup>7</sup> Chapter 4 for the ESO.

**Timeline**

If we implement the proposed modifications to the RIGs, they will take effect on 01 June 2022. For the avoidance of doubt, this means that the data submitted in August 2022 (in respect of the 2021/22 reporting year) would use the RFPR RIGs as modified.

We welcome representations on our proposed modifications by 29 April 2022, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

**Mick Watson**

**Interim Chief Financial Advisor, Analysis and Assurance**

**Duly authorised on behalf of the Authority**

**Cadent Gas Limited  
Northern Gas Networks Limited  
Scotland Gas Networks plc  
Southern Gas Networks plc  
Wales & West Utilities Limited**

(each one a “Licensee”, and together, “the Licensees”)

**Notice under paragraph 10 of the Standard Special Condition A40  
(Regulatory Instructions and Guidance) (“SSC A40”) of the Gas Transporter  
Licence (the “Licence”) granted to the Licensees under section 7 of the Gas  
Act 1986 (the “Act”).**

The Gas and Electricity Markets Authority (the “Authority”)<sup>8</sup> hereby gives  
notice under paragraph 10 of SSC A40 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the “RIGs”) under SSC A40 of the Licence. The RIGs are the primary means by which the Authority directs the Licensees to collect and provide information to the Authority, to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-GD2 Final Determinations.<sup>9</sup>
2. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SSC A40, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 31 August 2022 in relation to:
  - The RIIO-2 Regulatory Financial Performance Reporting excel template and guidance document
4. The proposed modifications are summarised below:

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<sup>8</sup>The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

<sup>9</sup><https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

- General amendments to the template and guidance to correct minor grammatical and referencing errors;
  - Updating the template and guidance to collect additional data regarding
    - Corporate governance
    - Corporation tax reconciliation
    - Profit reconciliation
  - Updating input data and parameters for the 2021/22 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GD2 and to update the existing reporting requirements on the Licensees and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Authority proposes that these modifications should take effect on 01 June 2022.
7. The Licensees must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

#### **Further information**

8. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
9. Copies of this Notice and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
10. Any representations on the proposed modifications must be made on or before 29 April 2022 to Penny Harandy by email to [Penny.Harandy@ofgem.gov.uk](mailto:Penny.Harandy@ofgem.gov.uk)
11. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as “not for publication”.

**Mick Watson**  
**Interim Chief Financial Advisor, Analysis and Assurance**  
**Duly authorised on behalf of the Authority**  
**01 April 2022**



**National Grid Gas plc (with respect to its gas transmission network) (the "Licensee")**

**Notice under paragraph 10 of the Standard Special Condition A40 (Regulatory Instructions and Guidance) SSC A40 of the Gas Transporter Licence granted to the Licensee under section 7 of the Gas Act 1986 (the "Act").**

The Gas and Electricity Markets Authority (the "Authority")<sup>10</sup> hereby gives notice under paragraph 10 of SSC A40 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SSC A40 of the Licence. The RIGs are the primary means by which the Authority directs the Licensee to collect and provide information to the Authority, to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-GT2 Final Determinations.<sup>11</sup>
2. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SSC A40, the Authority hereby gives notice to the Licensee that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 31 August 2022 in relation to the Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
  - General amendments to the template and guidance to correct minor grammatical and referencing errors;
  - Updating the template and guidance to collect additional data regarding
    - Corporate governance
    - Corporation tax reconciliation
    - Profit reconciliation

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<sup>10</sup>The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

<sup>11</sup>[RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Updating input data and parameters for the 2021/22 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GT2 and, to update the existing reporting requirements on Licensee, and align the template and guidance with the latest special licence conditions and Price Control Financial Model.
  6. The Authority proposes that these modifications should take effect on 01 June 2022.
  7. The Licensee must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

### **Further information**

8. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
9. Copies of this Notice and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
10. Any representations on the proposed modifications must be made on or before 29 April 2022 to Penny Harandy by email to [Penny.Harandy@ofgem.gov.uk](mailto:Penny.Harandy@ofgem.gov.uk)
11. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as “not for publication”.

**Mick Watson**  
**Interim Chief Financial Advisor, Analysis and Assurance**  
**Duly authorised on behalf of the Authority**  
**01 April 2022**



**National Grid Electricity Transmission plc**  
**National Grid Electricity System Operator Limited**  
**SP Transmission plc**  
**Scottish Hydro Electric Transmission plc**

(each one a “Licensee”, and together, “the Licensees”)

**Notice under paragraph 10 of Standard Condition B15 (Regulatory Instructions and Guidance) (“SC B15”) of the Electricity Transmission Licence (the “Licence”) granted to the Licensees under section 6(1)(b) of the Electricity Act 1989 (the “Act”).**

The Gas and Electricity Markets Authority (the “Authority”)<sup>12</sup> hereby gives notice under paragraph 10 of SC B15 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the “RIGs”) in accordance with SC B15 of the Licence. The RIGs are the primary means by which the Authority directs the Licensees to collect and provide information to the Authority, to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-T2 Final Determinations.<sup>13</sup>
2. Paragraph 10 of SC B15 sets out the process for issuing and modifying the RIGs. In accordance with SC B15, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2022 in relation to the Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
  - General amendments to the template and guidance to correct minor grammatical and referencing errors;

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<sup>12</sup> The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

<sup>13</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Updating the template and guidance to collect additional data regarding
    - Corporate governance
    - Corporation tax reconciliation
    - Profit reconciliation
  - Updating input data and parameters for the 2021/22 reporting year
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to update the existing reporting requirements on the Licensees, and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Authority proposes that these modifications should take effect on 01 June 2022.
7. The Licensees must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

#### **Further information**

8. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
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11. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as “not for publication”.

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**01 April 2022**