



Making a positive difference
for energy consumers

**National Grid Electricity Transmission
plc ("NGET")**

(Company Number: 02366977)

SP Transmission Limited ("SPTL")

(Company Number: SC189126)

**Scottish Hydro Electric Transmission
plc ("SHET")**

(Company number: SC213461)

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(the "Licensees")

Date: 14 March 2022

Direction under paragraph 3 of Standard Condition B15

**(Regulatory Instructions and Guidance) ("SC B15") of the Electricity
Transmission Licence granted to the Licensees under section 6(1)(b) of
the Electricity Act 1989**

Whereas –

1. The Licensees each hold an Electricity Transmission Licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act") and are subject to the conditions contained in the Licence.
2. The RIIO-ET2 Electricity Transmission Price Control - Regulatory Instructions and Guidance (the "RIGs") and the Regulatory Reporting Pack (the "RRP") are the primary means by which the Gas and Electricity Markets Authority ("the Authority")¹ directs the Licensees to provide information required by the Authority to administer the conditions of the Licence and, where not referenced in the Licence, the RIIO-ET2 Final Determinations.²
3. In accordance with paragraph 8 of SC B15 of the Licence, the Authority issued a consultation³ on 19 November 2021 on the updated RIGs for RIIO-ET2.

¹ 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.

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

³ [Consultation for RIIO-ET2 draft annual reporting data templates and associated instructions and guidance | Ofgem](#)

4. The consultation requested that any representations on the proposed RIGs were made on or before 22 December 2021. The Authority received three representations. The Authority has considered the representations and has made a number of changes to the RIGs and RRP proposed as part of our consultation.
5. We have set out our responses to the representations received in Appendix 1 to this Direction and have separately responded to the specific issues logs submitted by the Licensees.
6. The licence fee cost recovery principles (the “principles”) set out how the amounts payable to Ofgem under the gas and electricity transmission licences are calculated and billed. The principles were last updated in June 2021 after a consultation (the “spring consultation”) dealing with an updated approach of returning surpluses to Licensees through credit notes. Responses to the spring consultation also suggested that the RIGs might be updated to also reflect this new approach. As a result, we carried out a separate consultation, published on 14 December 2021, which considered a small change to the RIGs, as well as minor amendments to the principles. These changes were designed to ensure consistency between the principles, licence conditions and RIGs.
7. This separate consultation requested that any representations were made on or before 22 January 2022. The Authority received two responses, of which one was relevant to the RIGs, as explained in Appendix 2.
8. The version number for the RIGs and associated documents have been updated to reflect the modifications (v1.00). The modifications to the RIGs and RRP template are also noted in the “changes log” tab of the RRP. We are implementing the new RIGs as set out in the consultation, incorporating changes made after considering the representation we received.
9. The modifications apply to information required in terms of the RIGs for the reporting year 1 April 2021 to 31 March 2022, including:
 - the RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.00
 - the RIIO-ET2 Reporting Template: Version 1.00

Now Therefore –

10. Pursuant to paragraph 3 of SC B15 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached Schedule.

11. The reason for this Direction is to introduce the new reporting requirements set out in the RIGs which will allow the Authority to track and monitor company performance against their RIIO-2 price control settlement and to ensure consistency with the principles. Further details are contained in our two consultations. This document constitutes notice of the Authority's reasons for the Direction as required by section 49A of the Act.

Deadline for submission of information –

12. The deadline for the reporting year 1 April 2021 to 31 March 2022 is 31 July 2022.

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Jourdan Edwards
Deputy Director, Networks
Duly authorised on behalf of the Authority
14 March 2022

Schedule to the Authority's Direction dated 14 March 2022

A copy of the RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.00 and the RIIO-ET2 Regulatory Reporting Template: Version 1.00 are available on the Authority's website.

Appendix 1 to the Authority's Direction dated 14 March 2022

Response to feedback on the Regulatory Instructions and Guidance (RIGs) and Regulatory Reporting Rack (RRP) to apply during RIIO-ET2

National Grid Electricity Transmission plc ("NGET") (Company Number: 02366977), SP Transmission Limited ("SPTL") (Company Number: SC189126), Scottish Hydro Electric Transmission plc ("SHET") (Company number: SC213461) (the "Licensees")

In November 2021 we published our consultation on the proposed RIGs and RRP for RIIO-ET2 under Standard Condition B15 of the Electricity Transmission Licence. This consultation set out our proposed reporting templates and accompanying guidance. We highlighted that these templates were an evolution of the data submission that accompanied the RIIO-ET2 Business Plan, which we used as the basis for setting allowances and outputs for the RIIO-ET2 price control period. We sought feedback on the form and content of the RIGs and RRP and more generally how we intend to monitor performance during the RIIO-ET2 period.

We received three responses to this consultation which raised a number of points relating to the reporting requirements. We address each in detail below. The respondents also highlighted a number of technical issues contained within the template and guidance. These included correction of formulaic errors, updates to data categorisation, references, clarifications and proposed changes and additions to data input within the RRP. We have addressed these detailed technical and functional matters and they are reflected in the final published versions of the documents.

Technical Glossary

The respondents expressed concern surrounding the Technical Glossary document (the "Glossary") and highlighted the need for further work to achieve consistency in the reporting approach for the new data requirements introduced within the RRP.

The objective of the Glossary is to provide sufficient clarity to enable any network company to populate the RRP in an accurate and consistent manner. We consider the current Glossary meets this objective.

We have had extensive engagement with the Licensees to develop the Glossary. The engagement confirmed that the internal reporting system of each network company collects data at greater levels of data disaggregation than currently exists in the RRP. The form and content of the RRP does not require data reporting at such a granular level through the RIGs framework. The Glossary has been designed, in collaboration with network

companies, to capture an appropriate aggregation of asset and activities to enable appropriate comparison and narrative explanation. The development approach also recognises justifiable differences are present in the manner in which Licensees deliver services and run networks.

We note that the Licensees are required to work together to ensure that the Glossary is collectively consistent (paragraph 1.10 of the Glossary) and that preliminary discussions amongst Licensees have taken place to advance this work. We consider it reasonable for Licensees to resolve matters of consistency in the first instance. We understand that the majority of the Glossary will be unaffected by any proposed revisions resulting from this consistency exercise; representations from the Licensees indicate evolutionary changes to capture bespoke assets/activities that Licensees consider to be materially distinguishable.

We expect Licensees to progress this joint work and collaborate constructively to move forward to secure a mutually agreeable outcome on this issue soon, as it key to overcoming the inconsistencies in the submitted data during the RIIO-ET2 business plan process.

Finally, we have also reviewed the specific comments received on the Glossary document and have made further revisions to specific definitions of asset costs. We will continue to work constructively with the Licensees to embed the RIIO-ET2 reporting requirements and further develop the Glossary to improve data quality and transparency.

Future use and assessment of ET2 RRP data

All respondents queried how the cost and volume (“C&V”) data collated through the proposed RRP is to be used and sought clarification on the strategy for future cost assessment across cost categories.

We recognise that the RRP can, and should where possible, be used as the dataset template for the future price control. The current RRP framework has evolved from the Business Plan Data Template (“BPDT”) and our development of the RRP framework has taken cognisance of inconsistencies in data reporting identified through the assessment process and has sought to address and minimise these.

We also recognise the shortcomings that were encountered in aspects of the RIIO-ET2 Project Assessment Model and its application in the process supporting the development of RIIO-ET2 draft determinations, and we have applied the lessons learned from this process to develop the RRP. We also acknowledge the consequences of re-cutting the data of this price control as the cost assessment evolves, not least the implications for data consistency and comparability, and will seek to minimise and avoid these implications, where possible.

As a result of further deliberations with Licensees, we currently anticipate moving away from mechanistic unit cost calculations for setting allowances. Our intention is for the current RRP data set - reporting schemes at an asset level – to form the starting point for an informed dialogue for both RIIO-ET2 performance and establishing the basis of RIIO-ET3 funding submissions. We recognise that the range of asset cost and effort expended can be project specific and we anticipate that the current construct of the RRP will provide a richer data set to inform the discussion on the RIIO-ET3 submission and RIIO-ET3 business plan assessment strategy.

We expect the development of our future cost assessment strategy to be informed by a range of tools, including:

- the Licensees explanation of historical precedent to evidence and justify future funding requests;
- an increased focus on engineering justification; and
- targeted data analytics to improve our understanding of how to use the information in developing a robust cost assessment methodology.

We are committed to further engagement on the data set we receive to enrich our understanding on what is genuinely comparable.

One respondent commented on the contracting strategy for delivery (e.g. turnkey contracts versus those delivered on a multi contract basis), the level of cost maturity and the cost reporting requirements within the RRP. We propose to engage further with the Licensees to determine the scale and maturity of projects subject to turnkey contractual delivery and/or projects in their infancy to ascertain whether there is a need for further explicit guidance in terms of the proportionate and reasonable level of information to be provided through the RRP. The general principle we expect to be applied is that Licensees will seek to provide information based on the best intelligence available at the time of submission and to provide cost reporting at an appropriate level of data aggregation commensurate with the stage of the project life cycle.

We are mindful that in the formative years of reporting it is appropriate for Licensees to establish an appropriate level of apportionment for construction projects in-flight, where the methodology applied can be shown to be based on reliable intelligence and is auditable.

Allocation methodologies

Concerns were expressed by some respondents that the allocation methodologies offer limited value to the development of a future cost assessment strategy. We acknowledge the comment that there are specific definitions of cost data requested for reporting in the RRP that will necessitate some costs to be populated using apportionment rules to generate the different cost splits for regulatory reporting.

We maintain our view that the RRP framework captures an appropriate aggregation of assets and activities to enable appropriate comparison and narrative explanation. Where there is a need for allocation or apportionment, we expect the Licensees to demonstrate that the cost information provided is representative, reliable, repeatable, and auditable.

We also recognise the need for pragmatism in managing the transition from the regulatory requirements and internal processes to support RIIO-ET1 submissions to the requirements under the new price control period. Therefore, we expect the year one submissions to be completed on a "reasonable endeavours"⁴ basis when presenting annualised scheme C&V data. This approach does not diminish the requirement on all Licensees to have a good understanding of its cost base at a scheme level and to appropriately challenge costs.

Population of baseline allowance data in advance of 31st July 2022

In our consultation we indicated that a consensus had been reached with Licensees to populate the RRP template with their understanding of the scheme level baseline allowance position, to reflect the position directed at Final Determinations ("FD"). The proposed one-off exercise was intended to mitigate issues experienced in RIIO-ET1 on the traceability of scheme level activity from the BPDT submission (what was expected to be delivered and budgeted for), the settlement decision (what funding was provided for based on this delivery expectation) and the outturn activity (actual cost incurred and output delivery). A deadline for completion of this exercise was proposed in the consultation version of the RIGs document that arose from the Licensees' desire to have this work completed and verified in a timely manner.

The respondents commented that a lack of clarity on details within the Glossary and the tight timescales for assurance and validation mean that population of the allowance data into the data template cannot be completed in advance of the July 2022 submission.

⁴ The RIGs make provision for network companies to use reasonable endeavours to populate each of the tables above. See paragraph 2.20 of the RIGs.

We note that having an agreed baseline position will bring benefits for both sides, especially to the narrative content and to improve the ability to identify and explain where Licensees have been efficient, innovated or over delivered, and will reduce the resource burden to validate the 2022 submission. Furthermore, we remain of the view that this will provide useful information and narrative during the price control period, minimising the requirement for ex-post review by addressing any concerns or clarifications in near real time and reduce the scope of data interrogation and associated resource to respond to post-submission queries.

We remain of the view that having an agreed understanding of the scheme level baseline allowance position of each network company will bring benefits for both sides as we progress through the price control period and begin to prepare RIIO-ET3. In terms of submission date, our preference remains for delivery in advance of the July submission, noting that confirming the opening baseline position will be most beneficial to the subsequent RRP narrative process. We will continue to work constructively with the Licensees to establish an achievable timetable.

Integration and interaction with the Revenue Workbook

The RIIO-2 framework introduced the requirement for Licensees to submit forecast outputs, allowances, and actual/forecast costs for inclusion alongside the Allowed Revenue calculation. The RRP submission and Allowed Revenue calculation are therefore a single process, represented by a requirement to populate a consolidated template containing worksheets for both C&V information and revenue information.

One respondent expressed a concern that the C&V file and the Revenue Workbook had been consulted on separately and noted an expectation of further consultation to address the linkages between data in the Revenue Workbook to source information in the C&V worksheets.

The Revenue Workbook was subject to consultation in June 2021⁵ and the C&V consultation was published in November 2021. Responses received to both consultations have been reviewed and the resultant consolidated RRP reflects the agreed revisions. These changes have been discussed and communicated to the network companies.

We note that the linkages in question are captured in a self-contained "linking sheet" in the consolidated pack and do not alter the form and structure of information collated in the C&V file or the Revenue Workbook. We do not consider that the introduction of a linking

⁵ A separate guidance document is available for the data input requirement for Revenue Workbook data worksheets here: [Decision on RIIO-2 PCFM Guidance | Ofgem](#)

sheet into the consolidated structure creates any additional risks to the delivery of the July 2022 submission. Furthermore, we note that the RIIO-ET2 approach will substantially reduce the manual data entry relative to RIIO-ET1 and improve internal validation.

Cost reporting in 2018/19 price base

In our consultation we acknowledged that cost reporting in a consistent 2018/19 price base represents a departure from the RIIO-ET1 reporting process, during which the RRP was submitted in nominal prices each year, and may require additional effort on the part of Licensees to implement. The proposal was accepted by the Licensees and Ofgem acknowledges that this change requires an additional step to be undertaken by Licensees prior to submission, however we think that with the correct processes in place, that this is achievable.

We believe that having cost figures reported in the same price base as when RIIO-ET2 FDs were set, in addition to how other mechanisms within the price control operate will increase the comparability, visibility and transparency and will remove any ambiguity or confusion around why certain figures change annually. Therefore, we believe that standardising network companies' way of reporting at a cross sector level (the change is also being applied in both Gas Transmission and Gas Distribution) will assist in an efficient process for monitoring and analysing company performance.

Complexity and transparency of the RRP

Two respondents raised concern over the size and complexity of the new RRP, which they believe falls short of providing an accessible and transparent overview of performance against outputs.

We have engaged with Licensees to further refine the reporting requirements and to increase auto-population of data since the consultation was published. We accept that there is an increased number of the data worksheets (relative to RIIO-ET1 RRP) and that the consultation RRP contained placeholder items and areas where further development was required. We have worked diligently through all issues logs received with each network company representative to address formulaic errors, data omissions (eg. provision to report risk costs has been introduced), and areas where the level of detail needs further refinement (eg. revisions made to the way regulatory outputs are reported through the scheme output and Price Control Deliverable ("PCD") reporting tabs). The RIGs document has also been updated to reflect comments received and updated guidance has been included across all C&V worksheets.

We consider we have achieved successful resolution of all matters raised within the respective issue logs and communicated these to each of the Licensees and as a result, we now consider that the pack is fully functional.

Allocation and the level of granularity

One respondent raised concerns that any allocation of allowances to assets, and any phasing of actual/forecast costs at an asset level, will be based on a set of assumptions which is not how Licensees currently report internally. The respondent believes it is more valuable and informative to develop reporting at a project portfolio level rather than requiring costs and allowances to be allocated down to individual assets.

We note that some Licensees currently use asset level cost to inform initial funding requests and to “true-up” costs against the actual cost categorisation after delivery of each project. We maintain our view that this approach provides no transparency on the attribution methodologies employed by Licensees during the project life cycle and provides no opportunity for Ofgem to validate the processes applied. Our proposed approach expects a reasonable and proportionate level of intelligence to inform an interim view of “in-flight” costs structures and project life cycle for multi-million projects delivered over multiple years. We expect this process, based on the reasonable endeavours obligation, to be applied by Licensees to establish the costs incurred, to provide a robust explanation of how these costs have been allocated and to explain how this process is utilised to inform and influence forecasts. We understand that this requirement reflects what is currently part of the network companies’ internal processes.

Narrative guidance

One respondent expressed concerns surrounding the requirements for accompanying RRP narrative and noted that the new guidance provides limited detail on the expectations for narrative development for RIIO-ET2 reporting.

We set out our expectations for the accompanying RRP narrative in the RIGs and this has not changed materially from RIIO-ET1. We expect the accompanying narrative to follow the cost structure and categorisations as set out in the RIIO-ET2 FDs so that there is transparency of cost reporting against allowances. Any divergence from this structure, or changes to cost categorisation should be well justified. If any changes to reporting in this way are deemed necessary, this should be discussed with us and a method to ensure meaningful reconciliation to FD allowances should be provided to maintain transparency and comparability throughout the RIIO-ET2 price control.

Where there are specific outputs or deliverables applicable to a cost area or project, or where deliverables or projects deviate materially from what was set out and funded in the RIIO-ET2 Business Plan, we expect this will warrant a more detailed explanation in the narrative.

We will provide separate high-level guidance note on the key information that must be included in the accompanying commentary document. The note will be provided as a development tool to give further clarity to Licensees on our expectations, and as a result, has the potential to reduce the need for supplementary questions after submission of the RRP. It will not form part of the formal RIGs framework. We welcome the opportunity to work with all Licensees to develop a commentary that will enable effective and transparent narrative reporting.

Additional RRP data table requirements

We have decided to make some changes to the RIGs and RRP to introduce additional worksheets relative to our consultation. These include:

- a “Rev Workbook linking sheet” and two supporting “working” sheets to provide a single interface point to gather the required data from the C&V RRP for the revenue worksheets, and
- specific worksheets, developed in liaison with NGET, to capture summary information on the bespoke PCD Mechanisms applicable to NGET only.

We believe the changes we have made represent a proportionate level of reporting for network companies, whilst allowing Ofgem to clearly monitor performance against the price control settlement.

The responses highlighted that some data requirements were unclear across various RRP tables and were reporting at a level that was too granular than what was required. In response to this feedback, we have further rationalised the requirements and/or increased auto-population within the RRP to address this concern.

To aid clarity, the formatting of the RRP has been updated so that for each year’s reporting input cells and cells that do not require input are clearly distinguished.

Concerns around the Network Asset Risk Metric (NARM) reporting

We received responses relating to the NARM workbook and it would be inappropriate for us to address these here. The NARM specific issues will be addressed within the NARM consultation decision.

Going Forward

We will continue to work constructively with the Licensees to embed the RIIO-ET2 reporting requirements and further develop the RRP and RIGs to improve data quality and transparency. This will help facilitate the assessment of re-openers which are in place throughout the price control period and are designed to help manage the level of uncertainty with regard to investment required across the network.

Appendix 2 to the Authority’s Direction, dated 14 March 2022

Response to feedback on minor changes to the Regulatory Instructions and Guidance (RIGs)

We carried out a consultation, published on 14 December 2021, which considered, at Question 2, minor changes to the RIGs and the RIIIO-GT2 Gas Transmission Price Control - Regulatory Instructions and Guidance (“the Gas RIGs”).⁶ These changes were designed to ensure consistency between the Cost Recovery Principles (the “principles”), licence conditions, the RIGs and the Gas RIGs.

It was proposed that the definition of “Transmission Licence Fee” in the RIIIO-T2 Electricity Transmission Price Control – Regulatory Instructions and Guidance on Data Templates: Version 1 would be amended as follows:

Section	Current Wording	Proposed Wording
	Transmission Licence Fee	Transmission Licence Fee
RIIO-T2 Electricity Transmission Price Control – Regulatory Instructions and Guidance on Data Templates: Version 1 Appendix 1	Payments by the licensee to the Authority determined in accordance with the standard condition licence.	Net payments by the licensee to the Authority determined in accordance with the standard condition licence.

This amended definition was considered at question 2 of this consultation.

Question 2: Do you have any comments on the wording of our proposed updated RIGs?

One respondent raised the following point in relation to the Gas RIGs, but we consider the feedback applies equally to the RIGs:

- *“Regarding the proposed drafting of Appendix 1 (Definitions), as we have noted in relation to proposed changes to Special Condition 6.1.3 in our response to the statutory licence consultation published on 15 December 2021, we believe it is unclear to simply add “net” to the drafting to encapsulate Ofgem’s proposed use*

⁶ [Licence fee cost recovery principles - proposed minor amendments December 2021 | Ofgem](#)

of credit notes to reduce licence fee payments. We therefore propose the following change:

- *"Payments made by the licensee determined in accordance with Standard Condition 3, taking into account any deductions made for credit notes issued by the Authority in respect of such payments".*

Having considered this response, we are therefore updating the definition of Transmission Licence Fee as follows:

- Payments made by the licensee determined in accordance with Standard Condition A4, taking into account any credit notes issued by the Authority in respect of such payments¹

¹ Further detail on the licence fee cost recovery principles can be found in the following document available from Ofgem website: <https://www.ofgem.gov.uk/publications/licence-fee-cost-recovery-principles-2021>]

The hyperlinks will be replaced with the updated principles document (to reflect changes currently being considered to the principles as set out in the 14 December consultation) once published.