

To:

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

Date: 01 June 2022

Dear Company Secretaries and Stakeholders,

Decision to modify the Regulatory Instructions and Guidance (“RIGs”), the Regulatory Reporting Pack (“RRP”) and the PCFM Guidance for RIIO-2

We¹ are issuing directions under the RIGs and in particular in relation to the following documents for Electricity System Operator, Electricity Transmission, Gas Distribution and Gas Transmission licensees:

- RIIO-2 RRP data templates
- RIIO-2 RIGs documents

We are also issuing directions under Special Condition 8.2 (Annual Iteration Process for the Price Control Financial Model) and Special Condition 5.2 of the ESO licence in relation to the PCFM Guidance for Electricity System Operator, Electricity Transmission, Gas Distribution and Gas Transmission licensees.

Please find enclosed the Directions setting out our changes made pursuant to the relevant Licence Conditions for each sector.

RIGs

The RIGs and RRP, are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from licensees to monitor performance against their RIIO-2 objectives and hold them to account.

¹ References to ‘the Authority’, ‘GEMA’, ‘Ofgem’, ‘we’, ‘us’ and ‘our’ are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets. Ofgem is the office of the Authority which supports GEMA.

As part of the enclosed Directions, we provide the modified versions of the following documents [marked up]:

- RIIO-GD2– Regulatory Instructions and Guidance: Version 1.11;
- RIIO-GD2 PCFM Guidance: Version 1.1;
- RIIO-GD2 Regulatory Reporting template: Version 1.11.;
- RIIO-GT2– Regulatory Instructions and Guidance: Version 1.14 ;
- RIIO-GT2 PCFM Guidance: Version 1.1;
- RIIO-GT2 Regulatory Reporting Template: Version 1.14;
- RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.3;
- RIIO-ET2 PCFM Guidance: Version 1.1;
- RIIO-ET2 Regulatory Reporting Template: Version 1.3;
- RIIO-2 ESO – Regulatory Instructions and Guidance: Version 1.1;
- RIIO-2 ESO PCFM Guidance: Version 1.1; and,
- RIIO-2 ESO Regulatory Reporting Template: Version 1.2.

Decision

We have decided to make a number of modifications to the RIGs, RRP and to the PCFM Guidance to align them with the RIIO-2 special licence conditions, the Price Control Financial Model (PCFM) and Price Control Financial Handbook (Handbook), collectively known as the Price Control Financial Instruments (PCFI) and to make minor corrections. These include:

- Making labelling changes and updates to variable values to align the RIGs and PCFM Guidance with the licence, PCFM and Handbook;
- minor snagging changes and corrections to the RRP pack following the recent sector-specific RIGs consultations;
- reinstating some presentational sheets that were previously included in the RIIO-1 RRP ; and
- including additional functionality within the RRP to re-calculate the correct inflationary uplift needed following an update to OBR forecast data during an Annual Iteration Process (AIP).

We set out the effect of and the reasons for these modifications below.

General updates

We have decided to proceed with our proposal to update the labels for variable values in the PCFM Guidance and in the RRP to reflect changes that have been made in the licence

and the PCFIs.

We have also included a number of snagging items that were identified following the close of the previous sector-specific consultations for the Gas Transmission² and Gas Distribution³ RIGs modifications.

The reason for these changes is to align the terminology and calculations within the RIGs and RRP with the RIIO-2 licence and PCFI so that we are able to gather the relevant data required to administer and monitor the RIIO-2 price controls.

PCFM Guidance

In our consultation notice letter, we proposed to include the PCFM Guidance within the RIGs framework. Following a review of stakeholder responses we have decided not to proceed with this proposal.

While we think the RIGs would be a suitable framework for the PCFM Guidance, we recognise that for this proposal to take effect, a statutory licence consultation under the Gas Act 1986 on proposed amendments to Special Condition 8.2 would be needed in conjunction. As such, any proposal to bring the PCFM Guidance into the RIGs framework will be dealt with as part of a separate statutory consultation, which will put forward proposals to modify Special Condition 8.2 and Special Condition 5.2 of the ESO licence.

The PCFM Guidance will therefore remain as a separate associated document governed by Special Condition 8.2 and special Condition 5.2 until a statutory consultation on proposals to amend the licence takes place.

Directly Remunerated Services (DRS)⁴

We have decided to proceed with our proposal to reinstate a DRS revenue sheet and a DRS cost sheet in the RRP, along with the associated guidance in the RIGs.

In RIIO-1, the RRP contained a sheet that set out the licensees' DRS revenues and a sheet that set out DRS costs. DRS refers to specific activities for which licensees are allowed to charge their customers directly and the remuneration of which is settled outside of the price control. Because the costs associated with these services are paid for

² [Direction to make modifications to the Regulatory Instructions and Guidance for RIIO-GT2 \(version 1.13\) | Ofgem](#)

³ [Decision notice for RIIO-GD2 draft annual reporting data templates and associated instructions and guidance | Ofgem](#)

⁴ DRS were referred to as "Excluded Services" in RIIO-1 under Special Condition 8B (Services treated as Excluded Services) of the electricity transmission licence, Special Condition 11C (Services treated as Excluded Services) of the gas transmission licence and in Special Condition 4C (Services treated as Excluded Services) of the gas distribution licence.

directly by the licensee, the costs and revenues are not factored into licensees' cost allowances. These sheets were predominantly presentational and allowed Ofgem to monitor the revenues and costs associated with these services.

We also asked the licensees' auditors to perform a series of agreed upon procedures (AUPs) on the revenues associated with DRS, on an annual basis. These procedures provide Ofgem with an additional level of assurance, which we would not otherwise have over the values submitted to us.

They were removed during the development of the RIIO-2 RRP., The reason that we are reinstating these is because we have since identified a need to include these in the RRP to enable the auditors to perform the Agreed Upon Procedures. These provide us with additional assurance over the revenue values and enable us to monitor the costs and revenues.

Additional ESO reporting sheets

We have decided to proceed with our proposal to introduce two additional reporting sheets in the RIIO-2 ESO RRP, to capture the ESO's Transmission Network Revenue⁵ and Balancing Services Activity External Revenue⁶, along with the relevant guidance for those sheets.

The reason for this modification is because the ESO's Transmission Network Revenue and Balancing Services Activity External Revenue streams are currently not captured by the RRP or PCFM.

These are additional revenue streams of the ESO which do not feed into the PCFM and its Internal Allowed Revenues. As such, we are continuing the RIIO-1 approach of including two separate templates for these calculations. This will ensure that the RRP captures the ESO's revenue streams in accordance with the licence conditions.

Timeline

The modifications to the RIGs 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) will use the RFPR RIGs, as modified.

⁵ This term is defined in SpC 1.1 Part B

⁶ This term is defined in SpC 4.2 Part A

Yours faithfully,

Jonathan Gorrie
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")

Direction under paragraph 3 of the Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") and paragraph 8.2.19 of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) of the Gas Transporter Licence (the "Licence") granted to the Licensees under section 7 of the Gas Act 1986 (the "Act").

Whereas –

1. The Licensee holds a Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. 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.⁷
3. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority gave notice to the Licensees on 14 April 2022⁸ that it proposed to modify the RIGs.
4. SC 8.2 sets out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 8.2.22 of SC 8 the Authority gave notice to the Licensees on 14 April 2022⁹ that it proposed to modify the PCFM Guidance.
5. The Notice required any representations by licensees on the proposals to be made on, or before, 12 May 2022.
6. Prior to the consultation period closing the Authority received ten responses. The

⁷<https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

⁸ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

⁹ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

Authority has considered the representations and has made a number of changes to the RIGs and to the PCFM Guidance proposed as part of the consultation.

7. We have set our our responses to the non-confidential representations received and the modifications made to the RIGs as a result of these in an issues log in Appendix 3 published on our website.
8. The modifications refer specifically to information required to be submitted to the Authority on or before 31 August 2022 in relation to:
 - RIIO-GD2– Regulatory Instructions and Guidance: Version 1.11;
 - RIIO-GD2 PCFM Guidance: Version 1.1; and
 - RIIO-GD2 Regulatory Reporting template: Version 1.11.
9. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs and PCFM Guidance documents specified above and published alongside this Direction.

Now Therefore –

10. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby modifies the RIGs; and pursuant to paragraph 8.2.19 of SC 8.2, the Authority hereby modifies the PCFM Guidance in the manner specified in the attached Schedule.
11. The reason for the amendments set out in this Direction is to collect additional information in line with our Final Determinations for RIIO-GD2 and to align the template and guidance with the latest special licence conditions and Price Control Financial Instruments. Further details are contained in the Decision letter attached to this Direction.
12. The modifications will take effect on 01 June 2022.
13. The Licensees must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

Jonathan Gorrie
Chief Financial Advisor, Analysis and Assurance
Duly authorised on behalf of the Authority
01 June 2022

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

Direction under paragraph 3 of the Standard Special Condition A40 (Regulatory Instructions and Guidance) SSC A40 and Special Condition 8.2 (SC 8.2) (Annual Iteration Process for the GT2 Price Control Financial Model) of the Gas Transporter Licence granted to the Licensee under section 7 of the Gas Act 1986 (the "Act").

Whereas –

1. The Licensee holds a Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. 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.¹⁰
3. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority gave notice to the Licensee on 14 April 2022¹¹ that it proposed to modify the RIGs.
4. SC 8.2 sets out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 8.2.22, the Authority gave notice to the Licensee on 14 April 2022¹² that it proposed to modify the PCFM Guidance.
5. The Notices required any representations by licensees on the proposals to be made on, or before, 12 May 2022.
6. Prior to the consultation period closing the Authority received ten responses. The Authority has considered the representations and has made a number of changes to the RIGs and to the PCFM Guidance proposed as part of the consultation.
7. We have set out our responses to the non-confidential representations received and the modifications made to the RIGs as a result of these in an issues log in

¹⁰[RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

¹¹ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

¹² <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

Appendix 4 published on our website.

8. The modifications refer specifically to information required to be submitted to the Authority on or before 31 August 2022 in relation to:
 - RIIO-GT2– Regulatory Instructions and Guidance: Version 1.14 ;
 - RIIO-GT2 PCFM Guidance: Version 1.1; and
 - RIIO-GT2 Regulatory Reporting Template: Version 1.14.
9. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

10. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby modifies the RIGs; and pursuant to paragraph 8.2.19 of SC 8.2, the Authority hereby modifies the PCFM Guidance in the manner specified in the attached Schedule.
11. The reason for the amendments set out in this Direction is to collect additional information in line with our Final Determinations for RIIO-GT2 and, to align the template and guidance with the latest special licence conditions and Price Control Financial Instruments. Further details are contained in the Decision letter attached to this Direction.
12. The modifications will take effect on 01 June 2022.
13. The Licensee must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

Jonathan Gorrie
Chief Financial Advisor, Analysis and Assurance
Duly authorised on behalf of the Authority
01 June 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")

Direction under paragraph 3 of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15"), Part C of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) and Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) of the Electricity Transmission Licence (the "Licence") granted to the Licensees under section 6(1)(b) of the Electricity Act 1989 (the "Act").

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 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.¹³
3. SC B15 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SC B15, the Authority gave notice to Licensees on 14 April 2022 that it proposed to modify the RIGs.
4. Paragraph 8.2.23 of Special Condition 8.2 of the Electricity Transmission Licence and paragraph 5.2.21 of the ESO Special Conditions set out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 8.2.23 of SC 8.2 and paragraph 5.2.21 of Special Condition 5.2, the Authority gave notice to Licensees on 14 April 2022 that it proposed to modify the PCFM Guidance.
5. The Notice required any representations by licensees on the proposals to be made on, or before, 12 May 2022.

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

6. Prior to the consultation period closing the Authority received ten responses. The Authority has considered the representations and has made a number of changes to the RIGs and PCFM Guidance proposed as part of the consultation.
7. We have set out our responses to the non-confidential representations received and the modifications made to the RIGs as a result of these in an issues log in Appendices 1 and 2 published on our website.
8. The modifications refer specifically to information required to be submitted to the Authority on or before 31 August 2022 in relation to:
 - RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.3;
 - RIIO-ET2 PCFM Guidance: Version 1.1;
 - RIIO-ET2 Regulatory Reporting Template: Version 1.3;
 - RIIO-2 ESO – Regulatory Instructions and Guidance: Version 1.1;
 - RIIO-2 ESO PCFM Guidance: Version 1.1; and
 - RIIO-2 ESO Regulatory Reporting Template: Version 1.2.
9. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

10. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached Schedule.
11. Pursuant to paragraph 8.2.19 of Special Condition 8.2 and paragraph 5.2.18 of Special Condition 5.2 of the ESO Licence the Authority hereby modifies the PCFM Guidance in the manner specified in the attached Schedule.
12. The reason for this Direction is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and to align the template and guidance with the latest special licence conditions and Price Control Financial Instruments. Further details are contained in the Decision letter attached to this Direction.
13. The modifications will take effect by 01 June 2022.
14. The Licensees must complete and return the reporting pack referred to above as part of the 2021/22 RIGs process.

Jonathan Gorrie
Chief Financial Advisor, Analysis and Assurance
Duly authorised on behalf of the Authority
01 June 2022