



Making a positive difference
for energy consumers

To:
Electricity Transmission
Network Operators;
interested stakeholders

Email: mark.cassidy@ofgem.gov.uk

Date: 28 February 2023

Dear Company Secretaries and stakeholders,

Proposal to modify the Regulatory Reporting Pack (RRP), Regulatory Instructions and Guidance (RIGs) and the Price Control Financial Model (PCFM) Guidance for RIIO-ET2

We¹ propose to amend the Regulatory Reporting pack (RRP), Regulatory Instructions and Guidance (RIGs) and PCFM Guidance for RIIO-ET2. Please find enclosed a Notice, issued pursuant to of Part A of Standard Licence Condition B15 (Regulatory Instructions and Guidance)² and paragraph 8.2.23 of Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) of the Electricity Transmission Licence, in respect of our proposed modifications.

We propose that if we implement these changes, they will take effect in April 2023³. For the avoidance of doubt, this means that the data submitted in July 2023 (in respect of the 2022-23 reporting year) should comply with the RIGs as modified.

RIIO-ET2

Based on the experience of the first year of the RIIO-ET2 Price Control⁴ we have reviewed and modified the reporting requirements for RIIO-ET2. We have engaged with the ETO's to seek to improve the functionality of the RRP and improve the supporting RIGs.

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

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.

² [Electricity Transmission Standard Licence Conditions 01 04 2022 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/electricity-transmission-standard-l licence-conditions-01-04-2022)

³ We propose to modify the RIGs in a direction on or after 31 March 2023.

⁴ [Network price controls 2021-2028 \(RIIO-2\) | Ofgem](https://www.ofgem.gov.uk/network-price-controls-2021-2028-riio-2)

Our initial proposals are summarised in the table below. Views are invited on our proposed approach in each area by 31 March 2023.

Table 1: Proposed data reporting amendments within the ET RRP pack & RIGs

RRP reference	Comment
Scheme_C&V_Load_Actuals	Replaces information previously requested through the Scheme Meta data/scheme volume/scheme cost. Retains requirement of data entry utilising both drop down menus and manual entry to provide details of Load schemes administrative data (e.g. scheme name; scheme commencement/completion etc) as well as the cost and volume of assets utilised in the delivery of the scheme
Scheme_C&V_NonLoad_Actuals	Replaces information previously requested through the Scheme Meta data/scheme volume/scheme cost. Retains requirement of data entry utilising both drop down menus and manual entry to provide details of Non Load schemes administrative data (e.g. scheme name; scheme commencement/completion etc) as well as the cost and volume of assets utilised in the delivery of the scheme
C2.22a Repairs	Requires detail on the number of non routine repairs and associated costs by asset category previously recorded on C2.22 Repairs & Maintenance
Analysis tabs to replace previous Co Cost Output tabs	Pre-defined points of analysis which set out performance in line with our approach at Ofgem to assist TO's with their own analysis and to produce the supporting narrative
RIGs – design activity definition clarification and its reporting	Manufacturing configuration design: the cost for Asset Specific Designs are those which the licensee does not have direct control over and the decisions on how to meet the specification in function design are for the manufacturer/contractor to determine. These costs should be treated as a direct activity.
RIGs – removal of guidance which allows TO's to assign indirect costs to direct costs arising from activities and/or assets not explicitly costed in their invoice	"Where contractors have recharged the licensee for the primary purpose of performing direct activities which include costs for indirect activities but these are not explicitly costed in their invoice, all costs will be treated as direct. However, where the indirect activity is explicitly costed and detailed in their invoice this should be recorded against the relevant indirect activity". As a result of the granular reporting required for T2, all TO's have employed appropriate processes to attribute costs to activities and assets not specifically invoiced or categorised. As such, the section of the guidance quoted above has become redundant.
Amending the definition of totex	We are proposing to amend the definition of totex in the RIGs to exclude any costs or Legal fees incurred relating to an application for a Judicial Review or an appeal to the CMA in respect of a decision made by Ofgem. The reason for this is that in our view legal fees incurred in challenging an Ofgem decision should not be recoverable through the price control and should not be subject to the sharing factor. These costs should be borne by network company's shareholders rather than the consumer because any legal challenge against an Ofgem decision would be in the interest of shareholders rather than the consumer and hence we believe they should not be included in totex. The effect of this is to modify the totex definition in Appendix 2 of the ET RIGs.
Pass-through, Inflation update, and PCFM Input Summary	Per the proposed amendment to the AIP timeline in Table 2 below, there will be no need for: the "inflation update sheet", associated logic that was included on the pass-through sheets and PCFM input sheets of the RRP. These have now been removed.
A2.1_Cost_Matrix_2022 to A2.1_Cost_Matrix_2028, working 2	Cost matrices now show costs split by mechanism, and these have subsequently been linked to working to 2 in order to derive values for the actual totex categories.

Table 2: Proposed amendments within the ET2 PCFM Guidance

PCFM Guidance reference	Comment
Amending the AIP timeline	<p>We are proposing a change to the AIP to bring the publication date more in line with tariff-setting for ET licensees. Whereas Ofgem previously published the AIP on 30 November with an additional AIP re-publication that took place in January, we now propose to publish the AIP at the end of January.</p> <p>The reason for this is to streamline the AIP process and have a single publication date that is closer to the networks tariff-setting date, rather than one publication on 30 November, followed by a second one closer to the tariff-setting date. The impact of this on setting allowed revenues will be the same, it will simply require less of an administrative burden on networks and Ofgem.</p> <p>In addition, this will update the AIP publication and dry run dates within the PCFM Guidance. Ofgem performs an inflation update each November. Under the previous timeline, networks did not have the opportunity to submit a further dry run after November and if they wish to perform an inflation update with the RRP after November, they had to undergo additional process. The newly proposed timeline will give licensees the chance to submit a further dry run of the PCFM and RRP in December and January following the November inflation update.</p> <p>We have also deleted the words in the PCFM Guidance that referred to the "inflation update sheet".</p> <p>We need to amend the relevant sections of the special licence conditions and the Price Control Financial Handbook before the changes can take effect, and we intend to consult on these amendments shortly.</p>

Commentary requirements

Alongside the submission of its RRP data template, each licensee must provide a comprehensive narrative. The commentary should give details on specific areas of spend and activities to aid our understanding of the results from a number of perspectives.

One key aim is to ensure that we can robustly monitor performance data, cost and output delivery with confidence for the duration of the RIIO-ET2 price control. We note that a requirement will continue to provide projections of performance, costs and output data into the RIIO-ET3 period to reflect the parameters of specific licence mechanisms and flow of costs for

- the flow of costs for schemes commencing in RIIO-ET2 that have been delivered/energised or are expected to be delivered/energised before 31 March 2026 but are currently expected to incur costs beyond 31 March 2026.
- the flow of costs for schemes commencing in ET2 and currently expected to be delivered between 1 April 2026 and 31 March 2031, and
- The flow of costs for schemes commencing in RIIO-ET2 that are currently expected to stretch beyond RIIO-ET2 period and into the subsequent Transmission Price Control.

For the avoidance of doubt, the requirement to provide commentary on the drivers to inform the strategic performance explanation are as described in para 1.20 of the guidance document.

We welcome comments on our proposed modifications by 31 March 2023, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Jourdan Edwards
Deputy Director, Networks
28 February 2023

To: 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")

Notice under Part A of Standard Licence Condition B15 (Regulatory Instructions and Guidance) ("SLC B15") and Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) of the Electricity Transmission Licence of proposed modifications to the Regulatory Instructions and Guidance and PCFM Guidance for RIIO-ET2

The Gas and Electricity Markets Authority (the "Authority"⁵) hereby gives notice under paragraph 10 of SLC B15 and Paragraph 8.2.23 of Special Condition 8.2.

Proposal to modify the Regulatory Reporting Pack (RRP), Regulatory Instructions and Guidance (RIGs) and PCFM Guidance

1. Each of the Licensees is the holder of an electricity transmission licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. The Authority proposes to amend the Regulatory Instructions and Guidance (the "RIGs") under SLC B15 of the licence.
3. Paragraph 8.2.23 of Special Condition 8.2 of the Electricity Transmission Licence sets out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 8.2.23 of SC 8.2 the authority hereby gives notice to Licensees that it proposes to amend the PCFM Guidance in the manner indicated in the documents that can be accessed on its website, published alongside this notice.
4. We are proposing to make amendments to the following documents:
 - (a) RIIO-ET2 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 1.6 (for all ET Licensees)
 - (b) RIIO-ET2 Electricity Transmission Reporting Pack Templates (excel): Version 2.1 (for all transmission owner businesses);
 - (c) RIIO-ET2 Electricity Transmission Glossary: Version 1.3 (for all ET Licensees)
 - (d) RIIO-ET2 PCFM Guidance: Version 1.2.

⁵ 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.

Drafts of each document, which shows the proposed amendments as incorporated, can be found on our website

5. The proposed amendments refer specifically to information required to be submitted to the Authority on or before 31 July 2023 in the following areas:
 - (a) the Regulatory Reporting excel template (version 2.1) for all transmission owner businesses;
 - (b) the guidance document supporting the Regulatory Reporting template (version 1.6) applicable to all ET Licensees; and
 - (c) RIIO-ET2 PCFM Guidance: Version 1.2.
5. The purpose of the proposed amendments is to require the Licensees to provide accurate, consistent and complete information to the Authority. The proposed amendments also aim to streamline the reporting process. The reasons for and effect of the modifications are described in the cover letter to this Notice.
6. The main proposed amendments are briefly summarised below. They are:
 - a) Introduce a new Scheme_C&V_Load_Actuals tab which replaces information previously requested through the Scheme Meta data/scheme volume/scheme cost.
 - b) Introduce a new Scheme_C&V_Non-Load_Actuals tab which replaces information previously requested through the Scheme Meta data/scheme volume/scheme cost.
 - c) Introduce a separate reporting tab for Repairs activity which requires detail on the number of non-routine repairs and associated costs by asset category previously recorded on Repairs & Maintenance
 - d) Introduce new Analysis tabs to replace previous Co Cost Output tabs, which sets pre-defined points of analysis setting out Price Control performance in line with our approach at Ofgem, to assist TO's in their own analysis and for the production of the supporting narrative
 - e) Design activity definition RIGs clarification. We are seeking to provide clarity on our view on the manufacturing configuration design activity and its reporting. The cost for Asset Specific Designs are those which the licensee does not have direct control over and the decisions on how to meet the specification in function design are for the manufacturer/contractor to determine. These costs should be treated as a direct activity as they are deemed to be a legitimate purchase cost of the asset.
 - f) RIGs amendment: as a result of the granular reporting required for T2, all TO's have employed appropriate processes to attribute costs to activities and assets not specifically invoiced or categorised. As such, the subsequent section of the guidance has become redundant: "Where contractors have recharged the licensee for the primary purpose of performing direct activities which include costs for indirect activities but these are not explicitly costed in their invoice, all costs will be treated as direct. However, where the indirect activity is explicitly costed and detailed in their invoice this should be recorded against the relevant indirect activity".
 - g) Amend the Pass-through, Inflation update, and PCFM Input Summary tabs with the intent to now receive the relevant pass-through terms in nominal terms in the revenue sheets in the RRP. As such the 'Inflation update' tab is no longer needed. This results in necessary updates to the 'Pass-through' and 'PCFM Input Summary'

sheet to ensure the nominal price base will be correctly read through in the 'PCFM input Summary' sheet.

- h) Amending the definition of Totex to exclude certain legal costs.
- i) Amending the AIP timeline to bring the publication date more in line with the tariff-setting date for Electricity Transmission networks.

Further information

- 7. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
- 8. Representations in response to the proposed modifications must be made to the Authority on or before 31 March 2023. Representations should be sent by email to mark.cassidy@ofgem.gov.uk.
- 9. We would prefer to receive responses in electronic form so that they can be easily published on our website. If you do not wish your response to be published, please clearly mark it as not for publication.
- 10. If the proposed modifications are implemented, they will take effect in April 2023⁶.

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Jourdan Edwards, Deputy Director, Networks Directorate
Duly authorised on behalf of the Authority

28 February 2023

⁶ We propose to modify the RIGs in a direction on or after 31 March 2023.