

To:

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

Date: 17 February 2023

Dear Company Secretaries and Stakeholders,

**Proposal to modify the Regulatory Instructions and Guidance (“RIGs”) and
Regulatory Reporting Pack (“RRP”) and the Price Control Financial Model
(PCFM) Guidance for RIIO-GD2 and RIIO-GT2**

We¹ are proposing to amend the RIGs and in particular the following documents for Gas Distribution and Gas Transmission licensees:

- RIIO-GD2 and RIIO-GT2 RRP data templates
- RIIO-GD2 and RIIO-GT2 RIGs documents
- RIIO-GD2 and RIIO-GT2 PCFM Guidance

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

RIGs

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

PCFM Guidance

The PCFM Guidance provides licensees with information on how to fill in the inputs in the Revenue sheets of the RRP, which feed into the PCFM and are used in setting the

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.

licensees' Allowed Revenues through the Annual Iteration Process (AIP).

As part of the enclosed Notices, we provide the following documents with proposed modifications [marked up]:

- RIIO-GD2– Regulatory Instructions and Guidance: Version 1.15;
- RIIO-GD2 PCFM Guidance: Version 1.2;
- RIIO-GD2 Regulatory Reporting template: Version 1.15;
- RIIO-GT2– Regulatory Instructions and Guidance: Version 2.2;
- RIIO-GT2 PCFM Guidance: Version 1.2;
- RIIO-GT2 Regulatory Reporting Template: Version 2.2;

Proposed modifications

We are proposing several amendments to the RIGs and RRP. These include:

- Changes and corrections to the RRP pack.
- Making consequential updates to the RIGs and PCFM Guidance to clarify the existing reporting requirements of the licensee.
- Amending the definition of Totex to exclude certain legal costs.
- Amending the AIP timeline to bring the publication date in line with the tariff-setting date for gas distribution and transmission networks.

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

General updates

We have included a few updates and corrections to the RRP pack, RIGs and PCFM Guidance. The updates were identified during discussions with the relevant network companies to clarify existing reporting requirements and align them with recent changes made to the special licence conditions.

For further details on changes to the RRP, please refer to the Change Log tab at the front of the pack, and for the RIGs, please see the tracked changes within the document.

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 GT RIGs and Appendix 2 of the GD RIGs.

Amending the AIP timeline

We are proposing a change to the AIP to bring the publication date in line with tariff-setting for GD licensees (end of January) and to bring it closer to the tariff-setting date for National Gas Transmission. 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.

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.

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.

Following from the above, 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. Similarly, we have also deleted the words in the PCFM Guidance that referred to this sheet.

1. 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.

Timeline

1. If we implement the proposed modifications to the RIGs, they will take effect by 1 April 2023. For the avoidance of doubt, this means that the data submitted in respect of the 2022/23 reporting year would use the RIGs as modified.

We welcome representations on our proposed modifications by 17 March 2023, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Jourdan Edwards

Interim Deputy Director

Onshore Networks

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 Part A of the Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") and part E of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) ("SC 8.2") 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")² hereby gives notice under Part A of SSC A40 and Part E of SC 8.2 as follows:

Proposal to modify the Regulatory Instructions and Guidance and PCFM Guidance

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SSC A40 and the PCFM Guidance under SC 8.2 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.³ The PCFM Guidance provides licensees with information on how to fill in the inputs in the Revenue sheets of the RRP, which feed into the PCFM and are used in setting the licensees' Allowed Revenues through the Annual Iteration Process.
2. SSC A40 and Part E of SC 8.2 set out the process for issuing and modifying the RIGs and PCFM Guidance, respectively. In accordance with Part A of SSC A40 and Part E of SC 8.2, 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 on its website, published alongside this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority for the 2022/23 Regulatory Year in relation to:

²The "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.

³<https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

- RIIO-GD2– Regulatory Instructions and Guidance: Version 1.15;
 - RIIO-GD2 PCFM Guidance: Version 1.2; and
 - RIIO-GD2 Regulatory Reporting template: Version 1.15.
4. The proposed modifications are summarised below:
- General amendments to the templates and guidance to correct labelling, calculation and referencing errors;
 - Addition of tables to assist with calculation of GDN⁴ allowances.
 - Addition of a Reopener Appendix. This table is related to the information in the Re-opener Pipeline log and is intended to collate a breakdown of individual projects with a greater detail.
 - Amending the definition of Totex to exclude certain legal costs.
 - Amending the AIP timeline to bring the publication date in line with the tariff-setting date for gas distribution and transmission networks.
5. The purpose of the proposed modifications is to correct the reporting template and clarify existing reporting requirements for the licensees. The reasons for and effect of the modifications are described in the cover letter to this Notice.
6. The Authority proposes that these modifications should take effect by 30 April 2023.
7. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs and AIP process.

Further information

8. The RIIO-2 Regulatory Reporting template and RIIO-2 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).
10. Any representations on the proposed modifications must be made on or before 17

⁴ [Gas Distribution Networks](#)

March 2023 by email to Neil.Munro@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”.

Jourdan Edwards
Interim Deputy Director, Onshore Networks
Duly authorised on behalf of the Authority
17 February 2023

National Gas Transmission plc (with respect to its gas transmission network) (the “Licensee”)

Notice under Part A of the Standard Special Condition A40 (Regulatory Instructions and Guidance) SSC A40 and part E of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model) (“SC 8.2”) 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”)⁵ hereby gives notice under Part A of SSC A40 and Part E of SC 8.2, as follows:

Proposal to modify the Regulatory Instructions and Guidance and PCFM Guidance

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the “RIGs”) under SSC A40 and the PCFM Guidance under SC 8.2 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.⁶ The PCFM Guidance provides licensees with information on how to fill in the inputs in the Revenue sheets of the RRP, which feed into the PCFM

⁵The “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.

⁶[RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

and are used in setting the licensees' Allowed Revenues through the Annual Iteration Process.

2. SSC A40 and Part E of SC 8.2 set out the process for issuing and modifying the RIGs and PCFM Guidance, respectively. In accordance with Part A of SSC A40 and Part E of SC 8.2, 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 on its website, published alongside this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority for the 2022/23 Regulatory Year in relation to:
 - RIIO-GT2– Regulatory Instructions and Guidance: Version 2.2;
 - RIIO-GT2 PCFM Guidance: Version 1.2; and
 - RIIO-GT2 Regulatory Reporting Template: Version 2.2.
4. The proposed modifications are summarised below:
 - General amendments to the template and guidance to correct labelling, calculation and referencing errors;
 - Amending the definition of Totex to exclude certain legal costs.
 - Amending the AIP timeline to bring the publication date in line with with the tariff-setting date for gas distribution and transmission networks.
5. The purpose of the proposed modifications is to correct the reporting template and clarify existing reporting requirements for the licensees. The reasons for and effect of the modifications are described in the cover letter to this Notice.
6. The Authority proposes that these modifications should take effect by 30 April 2023.
7. The Licensee must complete and return the reporting pack referred to above as part of the 2022/23 RIGs and AIP process.

Further information

8. The RIIO-2 Regulatory Reporting template and RIIO-2 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).
10. Any representations on the proposed modifications must be made on or before 17 March 2023 by email to Neil.Munro@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”.

Jourdan Edwards
Interim Deputy Director, Onshore Networks
Duly authorised on behalf of the Authority
17 February 2023