

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

Date: 11 April 2023

Dear Company Secretaries and Stakeholders

Decision to modify the Regulatory Instructions and Guidance ("RIGs"), the Regulatory Reporting Pack ("RRP") and the Price Control Financial Model ("PCFM") Guidance for RIIO-2

We¹ are issuing directions under the RIGs and in particular in relation to 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

We are also issuing directions under Special Condition 8.2 (Annual Iteration Process for the Price Control Financial Model) in relation to the PCFM Guidance for Gas Distribution and Gas Transmission licensees.

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

RIGs and RRP

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.

As part of the enclosed Directions, we provide the modified versions of the following documents (clean and marked up version):

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.

- 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;

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, corrections and updates to the RRP pack following the recent sector-specific RIGs consultations;
- The inclusion of tables to assist with year-on-year calculation of totex as well as further tables to enhance reporting.
- Removal of tables, that are not in use, to streamline the RRP.

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

General updates

On 17 February 2023, we issued a consultation² seeking views on proposed amendments to the RIGs, RRP and PCFM for Gas Distribution and Gas Transmission licensees.

We received responses to the consultation from licensees to which these regulatory reporting requirements will apply and after a thorough consideration of the responses, we have amended the reporting templates and guidance documents accordingly.

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.

²[Notice proposing modifications to the Regulatory Instructions and Guidance \(RIGs\) RIIO-2 Year 2 for GT, GD and Regulatory Finance | Ofgem](#)

Amending the definition of totex

We have decided 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 have decided to make 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

The modifications to the RIGs will take effect on 11 April 2023.

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")

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.³
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 17 February 2023⁴ 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 17 April 2023⁵ that it proposed to modify the PCFM Guidance.
5. The Notice required any representations by licensees on the proposals to be made

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

⁴ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

⁵ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

on, or before, 18 March 2023.

6. Prior to the consultation period closing the Authority received four 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. The modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2023 in relation to:
 - 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.
8. 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 –

9. 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.
10. 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.
11. The modifications will take effect on 11 April 2023.
12. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

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

National 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.⁶
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 17 February 2023⁷ 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 17 April 2023⁸ 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, 18 March 2023.
6. Prior to the consultation period closing the Authority received a feedback log from National Gas plc with proposals to amend the RIGs, RRP and PCFM. The Authority has considered the representations and has made a number of changes to the relevant documents.

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

⁷ <https://www.ofgem.gov.uk/publications/notice-proposed-modifications-regulatory-instructions-and-guidance-and-regulatory-reporting-packs-riio-2>

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

7. The modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2023 in relation to:
 - RIIO-GT2– Regulatory Instructions and Guidance: Version 1.14 ;
 - RIIO-GT2 PCFM Guidance: Version 1.2; and
 - RIIO-GT2 Regulatory Reporting Template: Version 1.14.

8. 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 –

9. 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.

10. 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.

11. The modifications will take effect on 11 April 2023.

12. The Licensee must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

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