

To:

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

Date: 14 April 2023

Dear Company Secretaries and Stakeholders,

## **Proposal to modify the Regulatory Instructions and Guidance ("RIGs") for RIIO-2**

We propose to make modifications to RIGs - the RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance ("RFPR RIGs").

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

### **RFPR RIGs**

The RFPR RIGs outlines the reporting requirements and sets out instructions and guidance for each licensee regarding the RFPR template.

As part of the enclosed Notices, we provide the following documents:

- RFPR RIGs guidance – a "tracked-up" version; and
- RFPR RIGs template

### **Proposed modifications**

We are proposing a number of updates and modifications to the RIGs RFPR template and guidance to align them with the RIIO-2 special licence conditions and Price Control Financial Model (PCFM). These include:

- Labelling changes and updates to variable values
- minor snagging changes and corrections to the RFPR template; and,
- Adding calculations and sections, consolidating and re-arranging data, where appropriate.

The reason for these changes is to improve the quality of data collection, ensure accuracies and to align the terminology and calculations within the RFPR with the RIIIO-2 licence so that we are able to gather the relevant data required to administer and monitor the RIIIO-2 price controls.

As well as this, we are proposing to introduce some new sections to the RFPR template and some new requirements for how to fill these out in the RFPR RIGs. These new areas are set out below, along with our justification for them.

### **New Debt data sheets**

We are proposing to introduce new debt sheets in the RFPR template to consolidate and improve the way we approach embedded debt and interest reporting in the RFPR template. These changes were informally included in our consultation last year, as annex 1 and 2, to seek companies' early feedback. Following recent engagement with companies and last year's consultation, we are proposing to include these as part of RIIIO-2 RFPR template to be used for 2023 submissions.

The main proposed changes to the template are as follows:

- **F6 - Debt Dataset:** added dataset sheet for embedded debt instruments reporting.
- **F7 - Data Validation:** added supporting sheet with dropdowns required to populate the dataset sheet and data validation checks.
- **F3 - Fixed Rate Debt, F4 - Floating Rate Debt, F5 - Inflation Linked Debt:** added detailed calculation sheets to derive, for each instrument reported in the dataset, debt volumes and interest payment amounts.
- **I1 - Universal Data:** added sheet with annual inflation and interest rate data. This could be merged with the pre-existing **Data** sheet.
- **I2 - Monthly Inflation:** added sheets with historic and forecasted monthly inflation rates and price indices. These are needed to derive the annual inflation rates, as well as for some detailed inflation linked debt calculations.
- **R6a - Net Debt input:** tab restructured and simplified, so the main debt volume aggregates and summary indicators are built using tabs **F3, F4** and **F5**. Debt is aggregated following a revised categorisation system, as per ED2 BPDT.
- **R6 - Net Debt:** the only relevant change to this tab is the reclassification of debt in the "Total Debt per Statutory Accounts" at the top of the sheet, consistently with **R6a**.
- **R5a - Financing input:** interest payments are aggregated by debt category in the table at the top of the sheet, and calculated from **F3, F4** and **F5**. The associated cash flow reconciliation table is also simplified accordingly.
- **R5 - Financing:** no change.

We are proposing to introduce these sheets to consolidate and rearrange the debt and interest input data that we collect.

The reason for proposing these changes to the debt and interest sheets is to improve the quality of embedded debt data collection, as well as increase transparency on how debt

amounts, interest costs and the resulting financial performance are calculated, based on the submitted data.

### **Tax Reconciliation**

Last year we decided to introduce a tax reconciliation sheet into the RFPR in line with the requirements set out in the Special Conditions and Price Control Financial Handbooks.

We have received a number of stakeholder responses in relation to the tax reconciliation that was consulted<sup>1</sup> on last year and have since had further engagement with network companies to ensure that the required corrections have been made to the template and clarifications have been made in the guidance. Our detailed responses to all stakeholders and the rationale for our proposals can be found in the "Tax Reconciliation" sheet of the RFPR issues log published alongside this letter.

### **Timeline**

We are proposing to change the submission and publication date for RFPR~~to~~ from 31 August to 30 September, due to the proposed change in timeline for the Annual Iteration Process (AIP). This proposed amendment has been reflected in the RFPR RIGs guidance.

The reason for proposing this change is to facilitate the use of data from the "latest PCFM" within the RFPR and to provide an updated view of network performance to stakeholders. This will ensure consistency between the latest PCFM and the RFPR.

If we implement these proposed modifications to the RFPR RIGs, they will take effect in time for the submission due in September 2023 (in respect of the 2022/23 reporting year) for the Gas Distribution and Transmission companies. Electricity Distribution companies will submit the RIIO-2 RFPR RIGs for the first time in 2024, for the 2023/24 reporting year.

We welcome representations on our proposed modifications by 12 May 2023, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

**Mick Watson**

**Interim Chief Financial Advisor, Analysis and Assurance**

**Duly authorised on behalf of the Authority**

**14 April 2023**

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<sup>1</sup> [Notice of proposed modifications to the Regulatory Financial Performance Reporting \(RFPR\) template and guidance for RIIO-2 | Ofgem](#)

**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 paragraph 10 of the Standard Special Condition A40  
(Regulatory Instructions and Guidance) (“SSC A40”) 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”)<sup>2</sup> hereby gives notice under paragraph 10 of SSC A40 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the “RIGs”) under SSC A40 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.<sup>3</sup>
2. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SSC A40, 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 via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2023 in relation to:
  - The RIIO-2 Regulatory Financial Performance Reporting excel template and guidance document
4. The proposed modifications are summarised below:

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<sup>2</sup>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.

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

- General amendments to the template and guidance to correct minor grammatical and referencing errors;
  - Updating the template and guidance to collect additional data regarding embedded debt and tax reconciliation.
  - Updating input data and parameters for the 2022/23 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GD2 and to update the existing reporting requirements on the Licensees and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

### **Further information**

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
9. Any representations on the proposed modifications must be made on or before 12 May 2023 to Stephanie Fernandes by email to [stephanie.fernandes@ofgem.gov.uk](mailto:stephanie.fernandes@ofgem.gov.uk)
10. 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”.

**Mick Watson**

**Interim Chief Financial Advisor, Analysis and Assurance**

**Duly authorised on behalf of the Authority**

**14 April 2023**

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

**Notice under paragraph 10 of the Standard Special Condition A40  
(Regulatory Instructions and Guidance) SSC A40 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")<sup>4</sup> hereby gives notice under paragraph 10 of SSC A40 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SSC A40 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.<sup>5</sup>
2. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SSC A40, 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 via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2023 in relation to the Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
  - General amendments to the template and guidance to correct minor grammatical and referencing errors;
  - Updating the template and guidance to collect additional data regarding
    - Corporate governance
    - Corporation tax reconciliation
    - Profit reconciliation

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<sup>4</sup>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.

<sup>5</sup>[RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Updating input data and parameters for the 2022/23 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GT2 and, to update the existing reporting requirements on Licensee, and align the template and guidance with the latest special licence conditions and Price Control Financial Model.
  6. The Licensee must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

### **Further information**

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8. Copies of this Notice and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
9. Any representations on the proposed modifications must be made on or before 12 May to Stephanie Fernandes by email to [Stephanie.Fernandes@ofgem.gov.uk](mailto:Stephanie.Fernandes@ofgem.gov.uk)
10. 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”.

**Mick Watson**  
**Interim Chief Financial Advisor, Analysis and Assurance**  
**Duly authorised on behalf of the Authority**  
**14 April 2023**

**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”)

**Notice under paragraph 10 of Standard Condition B15 (Regulatory Instructions and Guidance) (“SC B15”) of the Electricity Transmission Licence (the “Licence”) granted to the Licensees under section 6(1)(b) of the Electricity Act 1989 (the “Act”).**

The Gas and Electricity Markets Authority (the “Authority”)<sup>6</sup> hereby gives notice under paragraph 10 of SC B15 as follows:

**Proposal to modify the Regulatory Instructions and Guidance**

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the “RIGs”) in accordance with SC B15 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-T2 Final Determinations.<sup>7</sup>
2. Paragraph 10 of SC B15 sets out the process for issuing and modifying the RIGs. In accordance with SC B15, 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 via the hyperlinks in Appendix 1 to this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2023 in relation to the Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
  - General amendments to the template and guidance to correct minor grammatical and referencing errors;

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<sup>7</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)



- Updating the template and guidance to collect additional data regarding
    - Corporate governance
    - Corporation tax reconciliation
    - Profit reconciliation
  - Updating input data and parameters for the 2022/23 reporting year
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to update the existing reporting requirements on the Licensees, and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

### **Further information**

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
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9. Any representations on the proposed modifications must be made on or before 12 May to Stephanie Fernandes by email to [Stephanie.Fernandes@ofgem.gov.uk](mailto:Stephanie.Fernandes@ofgem.gov.uk)
10. 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”.

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