

To:
Electricity Transmission
Network Operators

Email: mark.cassidy@ofgem.gov.uk

Date: 12 May 2023

Direction under paragraph 3 of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") and paragraph 20 of Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) ("SpC 8.2") of the Electricity Transmission Licence granted to the Licensees: 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") under section 6(1)(b) of the Electricity Act 1989

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 RIIO-ET2 Electricity Transmission Price Control - Regulatory Instructions and Guidance (the "RIGs") and the Regulatory Reporting Pack (the "RRP") are the primary means by which the Gas and Electricity Markets Authority ("the Authority")¹ directs the Licensees to provide information required by the Authority to administer the conditions of the Licence and, where not referenced in the Licence, the RIIO-ET2 Final Determinations.²
3. In accordance with paragraph 8 of SC B15 and paragraph 23 of SpC 8.2 of the Licence, the Authority issued a consultation³ on 28 February 2023 on updating the RIGs and PCFM Guidance for RIIO-ET2.
4. The consultation requested that any representations on the proposed RIGs and PCFM Guidance were made on or before 31 March 2023. The Authority received five

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

³ <https://www.ofgem.gov.uk/publications/notice-proposing-modifications-regulatory-reporting-pack-rrp-and-regulatory-instructions-and-guidance-rigs-riio-et2>

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

5. We have set out our responses to the representations received and indicated where we have deviated from our original position and why in Appendix 1 to this Direction and have separately responded to the specific issues logs submitted by the Licensees.

6. The version number for the RIGs and associated documents as listed under paragraph 7 have been updated to reflect the modifications (v1.7). The modifications to the RIGs and RRP template are also noted in the "changes log" tab of the RRP. We are implementing the new RIGs as set out in the consultation, incorporating changes made after considering the representation we received.

7. The modifications apply to information required in terms of the RIGs and PCFM Guidance for the reporting year 1 April 2023 to 31 March 2024, including:

- the RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.7
- the RIIO-ET2 Reporting Template: Version 2.3
- the RIIO-ET2 PCFM Guidance: Version 1.2.

Now Therefore –

8. Pursuant to paragraph 3 of SC B15 of the Licence, the Authority hereby modifies the RIGs; and pursuant to paragraph 20 of SpC 8.2, the Authority hereby modifies the PCFM Guidance in the manner specified in the attached Schedule to the Authority's Direction dated 12 May 2023

A copy of the RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.7, the RIIO-ET2 Regulatory Reporting Template: Version 2.3 and the RIIO-ET2 PCFM Guidance: Version 1.2 are available on the Authority's website

9. The reason for this Direction is to introduce with immediate effect the new reporting requirements set out in the RIGs which will allow the Authority to track and monitor company performance against their RIIO-2 price control settlement and to ensure consistency with the principles. This decision also aligns the template and guidance with the latest special licence conditions and Price Control Financial Instruments. Further details are contained in our consultation.⁴ This document constitutes notice of the Authority's reasons for the Direction as required by section 49A of the Act.

Deadline for submission of information –

10. The deadline for the reporting year 1 April 2022 to 31 March 2023 is 31 July 2023.

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

⁴ <https://www.ofgem.gov.uk/publications/notice-proposing-modifications-regulatory-reporting-pack-rrp-and-regulatory-instructions-and-guidance-rigs-riio-et2>

Appendix 1 to the Authority's Direction dated 12 May 2023

Response to feedback on the Regulatory Instructions and Guidance (RIGs), Regulatory Reporting Pack (RRP) and PCFM Guidance to apply during RIIO-ET2

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")

In February 2023 we published our consultation on the proposed RIGs and RRP for RIIO-ET2 under Standard Condition B15 and PCFM Guidance under Special Condition 8.2 of the Electricity Transmission Licence. This consultation set out our proposed reporting templates and accompanying guidance. We highlighted that these templates were an evolution of the data submission that accompanied the RIIO-ET2 Business Plan, which we used as the basis for setting allowances and outputs for the RIIO-ET2 price control period. We sought feedback on the form and content of the RIGs, RRP and PCFM Guidance and more generally how we intend to monitor performance during the RIIO-ET2 period.

We received five responses to this consultation which raised a number of points relating to the reporting requirements. We address each of these points in detail below. The respondents also highlighted a number of technical issues contained within the template and guidance. These included: corrections of formulaic errors; updates to data categorisation; references; clarifications; and proposed changes and additions to data input within the RRP. We have addressed these detailed technical and functional matters and they are reflected in the final published versions of the documents.

Totex Definition Amendment

All five respondents expressed concern regarding an amendment to the definition of Totex in Appendix 2 of the Electricity Transmission ("ET") RIGs to exclude any costs or legal fees incurred relating to an application for a Judicial Review or an appeal to the Competition Markets Authority ("CMA") in respect of a decision made by Ofgem. This amendment also included the clarification that "Ofgem shall pay all legal fees and cost awarded against it by the Judicial review body and the CMA". For context, our proposed amendment aligns with the Gas Transmission ("GT") and Gas Distribution ("GD") sector RIGs.⁵ We are currently also consulting on the same drafting as part of the ED2 RIGs modifications.⁶

The concerns regarding this amendment are broadly similar and can be summarised under 5 main categories.

1. Respondents believed the proposed change is not in the interest of consumers

The ENA responding on behalf network companies stated:

"Ofgem's stated rationale for the proposed change is fundamentally flawed. This is because it cannot be assumed that any legal challenge against an Ofgem decision is solely in the interest of shareholders (and not consumers)."

⁵ [Decision on modifications to the Regulatory Instructions and Guidance \(RIGs\), Regulatory Reporting Packs \(RRPs\) and the PCFM Guidance RIIO-2 Year 2 | Ofgem](#)

⁶ See Annex A of [Notice to issue regulatory instructions and guidance under the electricity distribution network operators price control RIIO-ED2 | Ofgem](#)

In a scenario where an appeal has succeeded, the CMA will have reached its decision whilst taking on Ofgem's principal objective to act in the interest of consumers. There can be no argument that the challenge was not in the interests of consumers when the CMA reaches a conclusion that Ofgem's decision was not in those interests. It cannot be in the interests of consumers for such errors by Ofgem to be left uncorrected, for example, where the correction of an error will result in investment that delivers a net benefit to consumers.

Ofgem's proposed change would act to deter networks from appealing against Ofgem errors with potential resultant detriment to consumers."

Our View

It remains Ofgem's view that any legal challenge against an Ofgem decision would likely be in the interests of shareholders rather than the consumer. We consider it unlikely that a company would seek an appeal or judicial review that is against the interests of its shareholders, given the fiduciary duties it would owe to them. Licensees are not required to factor into their decision making the same requirements as the Authority under the principal objective, and are therefore not likely to consider all factors affecting consumer interests. Therefore, it is our view that excluding 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 from Totex helps to ensure that only well-evidenced appeals are raised.

We disagree that the change to the definition of Totex will deter networks from appealing against Ofgem errors with potential resultant detriment to consumers, as per the amended footnote "*Ofgem shall pay all legal fees and cost awarded against it by the Judicial review body and the CMA*". If a network is confident that there is an Ofgem error, the network would be confident that there is a strong probability that its action would succeed on appeal, and it would therefore be equally likely that the Judicial Review body or CMA will determine that Ofgem should pay a certain amount of a network's legal fees.

2. Statutory Standing and legitimacy

The ENA responding on behalf network companies stated:

"CMA costs are an important and integral part of the licence modification process under the Gas and Electricity Acts. Where these costs are incurred by a licensee it does so acting under the statutory regime, so there is no reason for them to be treated differently to other costs.

Any appeal to the CMA would only be undertaken by a licensee where it is deemed necessary for the network to carry out its role efficiently and economically for consumers. As is the case for all public bodies, it is important that there are ways in which Ofgem's decisions can be challenged and it is therefore not reasonable to try to discourage such challenge by imposing greater risk on networks, if they do so."

Our View

Neither the Electricity Act 1989⁷ and the Gas Act 1986⁸ make specifications as to who is liable for the costs or legal fees incurred relating to an application for a Judicial Review or appeal to the CMA in respect of a decision made by Ofgem. Our view is that it is for the courts to decide who should bear the costs or legal fees on a case-by-case basis.

We agree that it is important that Ofgem's decisions can be challenged, and we have not in any way changed the licensee's ability to challenge these decisions.

3. Regulatory stability and minimising costs to consumers

The ENA responding on behalf network companies stated:

"The current GB regulatory regime is viewed favourably by investors as one that is stable and applies the rule of law. This is critical in setting the conditions needed to attract the scale of efficient investment needed to deliver Net Zero and governments wider related policy objectives. Any perception by investors that the GB regulatory regime is changing could clearly be very damaging.

The ability to appeal to a higher authority, in this case the CMA, where a regulator has erred in its decision is a key aspect of the current regulatory regime that supports investor's confidence. CMA appeals are therefore a legitimate cost."

Our View

We strongly believe this amendment to the definition of Totex maintains regulatory stability and ensures minimising the cost to consumers. The ability to appeal to the CMA has not been altered in any way.

Ofgem is duty bound to act in the interests of consumers. The respondent's preference does not minimise costs to consumers as consumers pay even for an appeal which was not successful. There is therefore no incentive for network companies to put the consumers first and it is likely any appeal or challenge will be in the interests of shareholders given the fiduciary duties it owes to them, rather than in the interests of consumers. Under our amendment to the definition of Totex the consumer only pays towards successful appeals, where Ofgem shall pay all legal fees and cost awarded against it by the Judicial review body and the CMA.

4. Proper process

The ENA responding on behalf network companies stated:

"If Ofgem is minded to pursue this proposed change, given its far reaching implications, it should be subject to a fuller analysis and appropriate level of consultation and scrutiny by

⁷ <https://www.legislation.gov.uk/ukpga/1989/29/part/I/crossheading/appeal-from-decisions-of-the-authority>

⁸ <https://www.legislation.gov.uk/ukpga/1986/44/part/I/crossheading/appeal-from-decisions-of-the-authority>

stakeholders, and not part of the wider annual consultation on the RRP and RIGs that is focused on improving the functionality of the RRP and improve the supporting RIGs."

Our View

The Authority has followed the correct process by consulting on this amendment. The definition of Totex is contained within the RIGs, and it is therefore within the RIGs in which it must be amended.

In order to amend the RIGs the Authority must comply with Standard Condition B15 (Regulatory Instructions and Guidance ("RIGs")), namely paragraph 8 of SC B15 which states:

"Before issuing new RIGs or amending the RIGs the Authority will publish on the Authority's Website:

- (a) the proposed text of the new or amended RIGs;*
- (b) the date on which the Authority intends the new or amended RIGs to come into effect;*
- (c) the reasons for the new or amended RIGs; and*
- (d) a period during which representations may be made on the new or amended RIGs which will not be less than 28 days."*

The Authority has complied with all parts of paragraph 8 and has given 28 days for representations, such as this one, to be made.

5. Unintended Consequences

One respondent also raised the potential for unintended consequences of the amendment stating:

"We are concerned the current drafting could lead to unintended consequences which Ofgem may not have considered. For example, in the past the ESO has assisted the court or CMA as an interested party or intervener in judicial reviews and CMA appeals brought against Ofgem (in particular, providing evidence and analytical support). The proposal would appear to stop the relevant licensees from recovering costs incurred in performing such a role in the future."

Our View

The Authority is cognizant of potential implications, and we believe the current wording allows for a licensee to recover costs when supporting or assisting the court or the CMA as an interested party or intervener. The text excludes from Totex "any costs or legal fees relating to an application for a judicial review or an appeal to the CMA", and we would not consider supporting or assisting the court or CMA as an interested party or intervener to fall under this description.

Our Decision

Overall, following our review of the responses we received, we have decided to make the changes to the definition of Totex, as set out in our consultation.

We believe this amendment is in the interests of consumers. We refute the point that this amendment has not been sufficiently considered or the correct process followed. As the

definition of Totex lies within the RIGs, it is necessary that the amendments are made through a RIGs consultation. The underpinning rationale, per the above, remains that a Judicial Review or CMA appeal put forward by a licensee is likely in the interests of shareholders given the fiduciary duties it would hold to them, as opposed to the interests of the consumer. Licensees are not required to factor into their decision making the same requirements as the Authority under the principal objective, and are therefore not likely to consider all factors affecting consumer interests.

We do not think it is in consumers interest to subsidise or fund the legal costs of Judicial Reviews or CMA appeals, especially where that may only positively impact shareholders and negatively impact consumers.

The ability of companies to appeal to the CMA or apply for a judicial review has not been altered in any way, and this change helps to ensure that only well-evidenced appeals are raised.

Definitions: Direct and Indirect Activities

Three of the respondents expressed concern regarding the removal in its entirety of a derogation which allows TO's to assign indirect costs to direct costs arising from activities and/or assets not explicitly costed in their invoice. Which states "*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*".⁹ Our stated rationale for this revision was the result of the granular reporting required for T2, where 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.

Of those three respondents expressing concern, one considered the removal of the derogation to be premature though recognising TO's have employed better processes to better attribute costs to activities and assets as evidenced in the Yr1 submission. However, this being dependant on availability of relevant cost category information which may not be applicable to existing contracts, highlighting concerns that the proposal creates a risk of non-compliance with RIGs, proposing further work between TO's & Ofgem is necessary to properly establish definitions across activities.

Our intention to improve cost reflectivity across the activity definitions is a key cornerstone of our ability to properly interrogate and benchmark costs across the ET sector and intends to be agnostic to the particular contracting strategies or accounting policies employed by the different TO's. The definitions for indirects have been previously consulted on for their use in both the T2 business plan submission and the 1st year of RIIO-T2 reporting and are well established and have been applied consistently throughout the T2 business plan submission process as well as the 1st year of reporting in T2. With all forms of regulatory reporting, we require TO's to provide their cost and volume information using reasonable endeavours. We expect an appropriate and commensurate level of intelligence to be collected by the TO's to inform what activities have been undertaken and what the cost of that activity has or will be. All TO's demonstrated their competence in this regard in the 1st year of reporting in T2 with all parties assuring us of the veracity of the cost data presented and that this was subject to rigorous assurance and directorate sign-off. Indeed, this has been further reinforced by the TO's within their responses to the Transmission glossary

⁹ [RIIO-T2 regulatory instructions and guidance \(RIGs\) v1.1 \(ofgem.gov.uk\) pg115](#)

included in this consultation where they each cite they have “*cost allocation methodologies which allow them to capture asset and cost allocation at work activity level*” despite assets and/or activities not being specifically itemised within their invoicing arrangements.

Of those three respondents expressing concern, another strongly disagreed with our statement on TO’s ability to employ appropriate processes to attribute costs to activities and assets not specifically invoiced or categorised. They raise concerns that: this was a new requirement for the T2 business plan with an unclear scope; it had not collected this data, nor was it available due to the invoicing structure at that time and also unable to reliably estimate the ‘indirect’ cost of contractors from the forecast for all RIIO-T2 projects because the unit costs used for estimating are based on the total contractor cost for delivering assets. Further stating that the confusion around scope and interaction between Direct and Closely Associated Indirects (“CAI”) has not been addressed. The respondent claims many of the projects currently in delivery (and hence being reported in RRP23) were contracted prior to the introduction of this requirement to split out the ‘indirect’ cost of contractors. For projects which have been contracted in the period 2019 to 2022, they state they do not have a robust and consistently understood definition for contractor’s ‘indirect’ costs and therefore cannot instigate “appropriate processes to attribute costs to activities and assets not specifically invoiced or categorised”.

We would highlight that there is no distinction between activities carried out by contractors as opposed to internal staff and that the definitions in use for both the T2 business plan and 1st year of T2 reporting requires costs to be assigned to the relevant activity definition irrespective of which party undertakes the activity. The derogation being removed was in place to ensure the regulatory reporting burden was commensurate with the information requirement and was viewed as an exception where all reasonable endeavours had been exhausted and where indirect costs in the margin were not reasonably attainable. This was never a blanket statement which allowed for all 3rd party indirect costs to simply be assigned to direct activity. We also note that each of the TO’s has evidenced and demonstrated in their internal work allocation cost models their ability to take costs for activities to a far more granular level of detail than that required in the RRP and have used this granular oversight as a justification and evidence in support of their funding submissions in both business plans and reopener applications.

The respondent also raised concerns at the timing and lack of consultation on this proposed change. Linking the proposal to the ongoing discussions between all TOs and Ofgem regarding the application of the Opex Escalator (“OE”) to the funding of re-openers such as Medium Sized Investment Projects (“MSIP”) re-openers.

We would highlight, as per our extensive discussions with the TO’s on this subject including the consultation process for defining direct and indirect activities in support of the business plan submissions and throughout the NGET MSIP reopener application process initiated in January 2022, that the derogation and its removal have no impact on the application of OE for applicable reopener applications.¹⁰ Details of the timeline and our position on the application of the OE are set out in detail in Section 2 of the MSIP decision document. The derogation clearly states that assigning indirect costs to direct activities arising from activities and/or assets is limited to where these are not explicitly costed in their invoice and is therefore not applicable to forecasts and their use in reopener funding applications. As previously stated the derogation was in place to ensure the regulatory reporting burden was commensurate with the information requirement and was viewed as an exception where all reasonable endeavours had been exhausted and where indirect costs in the margin were not

¹⁰ [Decision on NGET’s 2022 MSIP Re-opener Applications | Ofgem](#)

reasonably attainable. This does not apply to forecasts for which this information is and should be made available, and again makes no distinction as to the party and/or contracting strategy being employed by the TO.

Of those three respondents expressing concern, another proposed this as a deviation from the position as at RIIO-ET2 Final Determination. Stating that RIIO-ET2 baseline capex allowances were derived from cost estimates where contractor indirects were categorised as Direct Activities. Therefore, any recategorisation of contractor indirects from Direct Activities into CAI will result in a mathematically flawed application of the OE and attempting to calculate the OE rate using one set of data and then applying inconsistently to future cost data is an error with the subsequent impact of a recategorisation of contractor indirect costs as material.

We would reiterate that the definition of indirect activity has remain unchanged throughout the ET2 business plan process. The data set, which the TO's provided, and the subsequent methodologies for deriving baseline allowances and the subsequent OE uncertainty mechanism were consulted on extensively and that all TO's agreed their outcome as part of the T2 Final Determinations. The proposed removal of the derogation above does not impact or alter the current Price control arrangements, either for the baseline allowances settled on or the mathematical formula derived from the indirect baseline settlement in creating the OE. Again, we note that the derogation and its removal has no impact on the application of OE for MSIP applications. The derogation clearly states that assigning indirect costs to direct activities arising from activities and/or assets is limited to where these are not explicitly costed in their invoice and is therefore not applicable to forecasts and their use in MSIP funding applications.

Noting our position above, our decision is to remove the historical derogation pertaining to recording indirect costs. However, we recognise and acknowledge that current reporting systems and processes employed in collecting cost data for the 22/23 reporting year may have been set using the previous reporting rules. Therefore, we will not seek to enforce this reporting rule change for costs reported in the 22/23 RRP. However, we expect TO's to make reasonable endeavours to separate costs for both direct and indirects in line with the activity definitions as defined in the RIGs and only reasonably apply the derogation for those indirect costs in the margins which have been performed in support of the primary function of delivering direct activities.

Phased scheme costs at asset level

One respondent was unsure of the use for annually phased costs at asset level collected in the current reporting pack which they believe is a significant reporting burden to produce, populate and assure this data. They state their initial cost estimation process is based on calculating a total estimated project cost through summing up a volume of assets and/or activities multiplied by a unit cost for each. This total cost is then phased across the forecast period of year through application of 'S' curves. As a project is delivered, costs are captured against assets such that – upon completion – they can allocate those costs correctly to the assets.

We expect all TO's to report cost and volumes of their activities on a reasonable endeavour's basis, with a proportionate level of intelligence collected and applied throughout the project lifecycle to ensure robust allocation and attribution methodologies are utilised to present the best possible cost reflectivity. This should reasonably and realistically ensure that the cost of any and all activities are accounted for throughout the planning and delivery phase, with the level of intelligence improving as the project matures. This allows TO's to annually update and refine any of the initial estimations to reflect

differing cost pressures or changes in scope and/or solution. It is unreasonable that a multi-million pound project spanning multiple years is not actively managed on a cost basis with significant oversight employed to ensure that both physical delivery and cost efficiency is monitored and reported annually. This overview provides us with (i) invaluable oversight of the robustness of TO's initial estimates, which are often the basis of future funding requests; (ii) a broader benchmark data set as individual assets are completed or near completion in advance of the full project closure; and (iii) an insight into the rigour of the project governance employed by TO's as they advocate on behalf of consumers to ensure that value is maximised from the supply chain and 3rd party contractors. Our decision is to retain the requirement for annually phased costs at asset level, consistent with prior year reporting, and remain committed to capturing data in this way for the benefits listed above.

Glossary Clarity

One respondent highlighted changes made to the Glossary which was consulted on with respect to the hierarchy of assets and activities which was not in line with their expectations from previous discussions. The assertion was the original hierarchy was not helpful and that the guidance on allocation of costs to the highest cost category on the hierarchy should be removed. However, the expectation from the discussion was that Ofgem would rewrite the section such that it incorporates the TO comments, removing reference to the hierarchy. In the published Glossary, Ofgem deleted the whole narrative referring to the hierarchy, including the TO comments, but left the hierarchy in place. This has rendered section 1.3 incomplete as guidance.

We acknowledge this oversight and have rectified this error by making the appropriate amendments to the wording in section 1.3 and including the TO specific comments relating to the cost allocation methodologies employed and their ability to capture asset and cost allocation at work activity level in the final published version (v1.4) of the Transmission Glossary.

Revenue RRP / AIP changes

One of five respondents raised concerns that Ofgem have not implemented some proposed changes to the revenue workbook element of the RRP tables and pack. Namely these related to suggested additional links in the "Rev Workbook Linking sheet" for certain variable values. However, we have not included some of these suggestions, and left certain line items to be input by the companies, per our approach in other sectors¹¹.

We have implemented a significant number of requested changes in the revenue worksheets and throughout the RRP to improve the functionality of the pack and to correct errors where present. In particular, we have made changes to the "Opex Escalator – supporting" worksheet, which has now been automated, and which previously required potentially hundreds of manual inputs. Please see the "Change Log" sheet in the RRP for a comprehensive list of changes.

Additionally, one of five respondents stated their key concern was the exclusion of a disposals table in the RRP as in their opinion it could lead to an error in the PCFM inputs and calculation of Allowed Revenue.

We feel the inclusion of a disposals table is not required as asset disposals can be recorded under the activity of decommissioning in the scheme entry tables (whether this occurs as part of a scheme or a standalone activity).

¹¹ [Decision on modifications to the Regulatory Instructions and Guidance \(RIGs\), Regulatory Reporting Packs \(RRPs\) and the PCFM Guidance RIIO-2 Year 2 | Ofgem](#)

Pass-through, Inflation update, and PCFM Input Summary

We did not receive any responses concerned with the changes that we made to the price base of certain pass-through variable values nor on the removal of the “Inflation update” sheet.

Some respondents raised queries regarding the absence of two new Accelerated Strategic Transmission Investment (“ASTI”) related re-openers in the version of the RRP we consulted on¹². These re-opener terms have now been included in the “PCFM Input Summary” sheet in the RRP and in the PCFM Guidance. Please see the “Change Log” sheet in the RRP for details on the ASTI related changes in the pack.

PCFM Guidance resulting in multiple RRP submissions

One of five respondents raised concerns regarding the amended PCFM Guidance which requests an updated version of the RRP during the Annual Iteration Process (“AIP”), such that the RRP and PCFM are aligned. In particular, the concern surrounded the scale of the requested update and the data assurance requirements.

To clarify, we are not proposing a re-submission of the full suite of RRP tables at each AIP dry run.¹³ We have amended the language in the PCFM Guidance to provide clarity on the reporting requirements, such that now it reads in paragraph 2.14 *“the revenue worksheets used to derive variable values in the “PCFM inputs summary” sheet of the ET2 RRP should be updated, and the “PCFM inputs summary” sheet should match the company-specific input sheets of the ET2 PCFM, where applicable.”* We do not expect this process to be onerous. We would not expect these RRP updates alongside dry runs to go through the Data Assurance Guidance requirements that the annual submission of the RRP on 1st July requires. Given this, we consider the requested RRP update to be reasonable and appropriate.

It is also worth noting this change and requirement has already been directed in both the PCFM Guidance for both the GT and GD sectors.¹⁴

Scheme Data Entry Methodology

Of those respondents that noted our change to the Scheme data entry methodology, all were supportive of the proposed change which had been collaborated on with the support of the TO’s through various working groups and bilaterals. We acknowledge the support of respondents.

Inclusion of separate Repairs data entry

Of those respondents that noted our inclusion of separate Repairs data entry, all were supportive of the proposed change. We acknowledge the support of respondents.

Introduction of enhanced Analysis tabs

Of those respondents that noted our introduction of enhanced analysis tabs, all were supportive of the proposed change. However, one respondent noted that further analysis could be useful in explaining the TO performance and they would supplement this analysis in their submission. We acknowledge the support of respondents and welcome any additional analysis which helps illuminate TO performance.

¹² [Accelerated Strategic Transmission Investment Informal Licence Drafting Consultation | Ofgem](#)

¹³ [ET2 Price Control Financial Handbook | Ofgem](#)

¹⁴ [Decision on modifications to the Regulatory Instructions and Guidance \(RIGs\), Regulatory Reporting Packs \(RRPs\) and the PCFM Guidance RIIO-2 Year 2 | Ofgem](#)

Revision of Cost Matrix tables to accommodate mechanism type

Of those respondents that noted our revision of the cost matrix tables to accommodate mechanism type, all were supportive of the proposed change. We acknowledge the support of respondents.

Ongoing Development

In terms of ongoing template development, our preliminary discussions have identified two issues where further data requirements will be necessary to keep pace with the evolving regulatory environment and to maintain transparency of reporting within the T2 period. These include appropriate data capture for ASTI and the need to develop a table to capture ongoing issues relating to Closeout. For ASTI, we propose working with TO's and our regulatory finance colleagues to develop the appropriate data capture framework, ensuring that the relevant information is identified and captured, providing TO's with the ability to record their expenditure and outputs to ensure funding is provided in a timely manner. For Closeout, we will work with TO's to ensure issues and any subsequent data requirements to facilitate a quick and efficient closeout process for T2 are captured in an appropriate format, ensuring TO's have greater certainty on their final revenue position for T2.