

To:

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

Date: 30 June 2023

Dear Company Secretaries and Stakeholders,

Direction to amend the Regulatory Instructions and Guidance ("RIGs") for RIIO-2

We have amended the RIGs to introduce:

- the RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance ("RFPR RIGs") for the Electricity System Operator, Electricity Transmission, Gas Distribution and Gas Transmission licensees.

The Gas and Electricity Markets Authority¹ (the "Authority") gave notice² on 14 April 2023 (the "Notice") that it proposed to make changes to the Regulatory Instructions and Guidance ("RIGs"). The Notice required any representations by licensees on the proposals to be made on, or before, 12 May 2023.

Prior to the consultation period closing the Authority received eight responses with representations on the consultation. All of the non-confidential stakeholder representations received as well as our responses to them and the reasons for any changes made to the proposed RFPR template and RFPR RIGs documents in light of consultation responses, can be found in the 'RFPR issues log' published alongside this direction.

In addition to the published RFPR issues log, we summarise below the main areas that the consultation responses pertain to.

¹ The terms "the Authority", "our" and "we" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

² [Notice of proposed modifications to the Regulatory Financial Performance Reporting \(RFPR\) template and guidance for RIIO-2 \(2023\) | Ofgem](#)

General updates and corrections

Licensees raised a number of general updates and corrections to the format and calculation of the RFPR template and consequential updates to the RIGs.

Following careful consideration of these responses, we have made the relevant changes, where appropriate, to reflect the new policies that we have implemented as part of our RIIO-2 Final Determinations (RII-GT2, RIIO-GD2, RIIO-ET2 and RIIO ESO) and to align the terminology and calculations in the RFPR with the RIIO-2 licences.

Tax Reconciliation

We received responses from seven licensees, which are set out below. While networks were broadly supportive of the aims of the reconciliation, there were concerns over the practical implementation of it in the version that we consulted on, relating to:

- the deadband thresholds used in the materiality checks
- which Price Control Financial Model to use as a source for R8a Tax reconciliation sheet
- unnecessary and/or duplicated information in the template
- a lack of clarity on Tax Review triggers

Revenue and additional columns

The version of R8a that we consulted on contained a separate column to reflect a grossing up calculation, which applied to the revenue figure from the PCFM and an additional column to isolate the tax element from that gross value, which was included based on discussion had at the working group. However, a number of networks have raised feedback suggesting that this created confusion and was not necessary to include.

Where, previously a formula was used to gross-up the revenue value in row 16, we have instead updated paragraph 3.18 of the guidance to specify that the PCFM input in the revenue line of R8a (cell H16) should be the sum of the “calculated revenue (except tax allowance)” and “Tax allowance (including adjustment)” lines in the PCFM Finance&Tax sheet. This results in a more streamlined template with fewer columns and is in line with the suggestions made by several of the network companies.

Deadband thresholds

Two networks (SGN and Wales and West Utility Ltd) raised feedback on the deadband thresholds that we had included in the consultation version of the template, noting that

there were errors in the proposed calculation. Having discussed this point with SGN and WWU, we understand from that the deadbands in the PCFM should apply to the tax allowance, however they are not on a comparable basis with the revenue and expenditure items shown above the Profits Chargeable to Corporation tax (PCTCT) line. As well as this the PCFM shows the deadbands in 18/19 prices and these should be converted to nominal terms for use in R8a.

We have therefore made the following changes to the materiality checks in the template:

1. Converted the PCFM deadbands to nominal prices
2. Gross the nominal deadbands up for all of the line items up to and including the PCTCT line on row 93 of R8a.

We have not made any amendment to the calculation on row 95 other than to convert the deadband used to nominal prices.

Latest PCFM Vs Charge setting PCFM

Two networks raised concerns with the version of the PCFM to use as the source for R8a given timing issues around the submission of the CT600. The revenue figure in the CT600 is most comparable with the PCFM used at the time of charge-setting, however, costs and other line items will have moved from the forecast values used in the charge-setting PCFM and a better proxy for these would be the latest version of the PCFM that networks will submit as part of their AIP dry run.

Having considered this, we feel that a more appropriate proxy for the CT600 values is the latest dry run PCFM as it will contain the most up-to-date totex and allowance values in it. While the latest PCFM will not be directly comparable with the revenue figure in the CT600 due to timing differences, this difference can and should be explained by networks in the commentary and on the face of the template.

Issues log

Our detailed responses to all stakeholders and further rationale for our decisions can be found in the "Post Consultation Issues" sheet of the RFPR Issues log published on our website alongside this letter.

New Debt data sheets

We received responses from five licensees on our proposal to introduce new debt data sheets. While the networks were broadly supportive of this new proposal, there were a number of questions and clarifications raised around use of the template, relating to:

Timing

The new debt sheets have an annual periodicity for debt volumes, and use monthly averages for reference rates. Some networks commented that this arrangement prevents the debt sheets from exactly mimicking their debt volumes and costs – for example where credit facilities are drawn multiple times within a year, or where floating rate debt is issued with a rate based on a specific date as opposed to a monthly average.

We have considered these issues, and are comfortable that the benefit of having a standardised and automated debt calculation method across all licensees outweighs these timing limitations.

Additional data

Licensees requested that additional data categories are provided to reflect debt instruments and rates that had not previously been included in the proposed template. Whilst we have incorporated some of these into the template, in other instances we have requested further information to assess whether there are sufficient grounds for adding more rates into the template.

Reconciliation to statutory accounts

NG ET suggested that the R5 and R6 tabs that we consulted on would benefit from moderate restructuring such that the outputs of the new debt data sheets would be reconciled first to regulatory net debt, and then secondly to statutory accounts. They argued that this was a better alignment than the current arrangement of reconciling first to statutory accounts and then to regulatory net debt.

We agree with this suggestion, and have amended the sheets accordingly by adding in new reconciliation lines. This also allows issues raised in *Timing*, above, to be addressed.

We consider that the implementation of these new debt data sheets in the RFPR template will lead to better consolidation and 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.

Our Decision

We have decided to implement the changes as set out in the RIIO-2 RFPR template and RFPR RIGs published on our website alongside this letter.

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

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

- RFPR RIGs guidance – a “clean” and “tracked” version; and
- RFPR RIGs template.

All of the stakeholder representations received as well as our detailed responses to them and the reasons for the differences between the proposed template and the template that we are directing can be found in the “RFPR issues log” published alongside these directions.

Timeline

The amendments to the RIGs will take effect on 01 July 2023. For the avoidance of doubt, this means that the data submitted in 30 September 2023 (in respect of the 2022/23 reporting year) will use the RFPR RIGs as amended.

Yours faithfully,

Mick Watson
Chief Financial Advisor, Deputy Director
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")

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Standard Special Condition A40 of the Gas Transporter Licence

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 Regulatory Instructions and Guidance ("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.²
3. Standard Special Condition A40: Regulatory Instructions and Guidance ("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 14 April 2023³ that it proposed to modify the RIGs, as set out in that notice.
4. The notice required any representations by licensees on the proposals made in that notice in relation to amending the RIGs to be made on, or before, 12 May 2023.
5. Prior to the consultation period closing the Authority received eight responses. The Authority has considered the representations in those responses and has made a number of amendments to the RIGs proposed as part of the consultation.

¹The "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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting \(RFPR\) template and guidance for RIIO-2 \(2023\) | Ofgem](#)

6. We have set out our responses to the non-confidential representations received and the modifications made to the RIGs as a result of these in the "RFPR issues log" published on our website.

The amendments refer specifically to information required to be submitted to the Authority on or before 30 September 2023 in relation to the RIIIO-2 Regulatory Financial Performance Reporting excel template and guidance document.

7. 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 –

8. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
9. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIIO-GD2 and to align the template and guidance with the latest special licence conditions and Price Control Financial Model. Further details are contained in the Decision letter attached to this Direction.
10. The amendments to the RIGs will take effect on 01 July 2023.
11. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
30 June 2023

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

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Standard Special Condition A40 of the Gas Transporter Licence

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 Regulatory Instructions and Guidance ("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.²
3. Standard Special Condition A40: Regulatory Instructions and Guidance ("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 14 April 2023³ that it proposed to modify the RIGs, as set out in that notice.
4. The Notice required any representations by the licensee on the proposals made in that notice on amending the RIGs to be made on, or before, 12 May 2023.
5. Prior to the consultation period closing the Authority received eight responses. The Authority has considered the representations in those responses and has made a number of changes to the RIGs proposed as part of the consultation.
6. We have set out our responses to the non-confidential representations received and the amendments made to the RIGs as a result of these in the "RFPR issues log" published on our website.

¹The "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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting \(RFPR\) template and guidance for RIIO-2 \(2023\) | Ofgem](#)

7. The amendments 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.
8. The amendments 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 directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made 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 Model. Further details are contained in the Decision letter attached to this Direction.
11. The amendments will take effect on 01 July 2023.
12. The Licensee must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
30 June 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")

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Condition B15 of the Electricity Transmission Licence

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 Regulatory Instructions and Guidance ("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-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator.²
3. Condition B15: Regulatory Instructions and Guidance ("SC B15") sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SC B15, the Authority gave notice to the Licensees on 14 April 2023³ that it proposed to modify the RIGs, as set out in that notice.
4. The Notice required any representations by licensees on the proposals made in that notice in relation to amending the RIGs to be made on, or before, 12 May 2023.

¹The "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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting \(RFPR\) template and guidance for RIIO-2 \(2023\) | Ofgem](#)

5. Prior to the consultation period closing the Authority received eight responses. The Authority has considered the representations made in those responses and has made a number of changes to the RIGs proposed as part of the consultation.
6. We have set out our responses to the non-confidential representations received and the amendments made to the RIGs as a result of these in the "RFPR issues log" published on our website.
7. The amendments 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.
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 SC B15 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
11. The amendments will take effect on 01 July 2023.
12. The Licensees must complete and return the reporting pack referred to above as part of the 2022/23 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
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30 June 2023