

Steve McMahon
Ofgem
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

6 June 2023

Dear Steve,

RIIO-ED2 RIGs Consultation

I am writing on behalf of National Grid Electricity Distribution (NGED), in relation to Ofgem's proposal to issue Regulatory Instructions and Guidance (RIGs) for RIIO-ED2 under part C of Standard Condition 46.

NGED has been fully engaged with the RIGs development process since the work started in mid-December 2022, providing substantial input, feedback and proposals throughout the various stages of development.

Given there are a number of new mechanisms and a focus on load growth in RIIO-ED2, we anticipated that the development of the RIGs would take time, but we are disappointed that there remain a significant number of outstanding issues and errors in the proposed RIGs, several months in to the RIIO-ED2 period. At the time of writing, there are over 100 open issues which have been flagged to Ofgem via the required 'Gitlab' process.

We acknowledge Ofgem's clarification that the proposed RIIO-ED2 RIGs will take effect from 1 April 2023. However, given that the final RIGs will not be issued until late June 2023, DNOs processes and systems may not have been set up to collect the required data from the start of the regulatory year. This is likely to result in DNOs having additional data processing (and associated costs) to capture the necessary data for the 2023/24 regulatory year submission.

The appendices to this letter, along with the issues we have raised in Gitlab, set out the outstanding issues we have with the RIGs. The most significant issues we have, as the RIGs currently stand, include:

- Numerous issues associated with the introduction of the PCFM Interface, T and R tables into the CVR pack and the implementation of the PCFM Guidance. These tables will be used as part of the interim PCFM dry run process this August, and DNOs are then required to use this process for tariff setting. It is therefore imperative that these issues are resolved as soon as possible.
- A major logic error on Table M6 (SRVD & LVSVD) (used for determining volume driver values) which underfunds DNOs for allowed activities and which requires immediate correction.

Given that there are still a number of significant issues with the RIGs, and that it is likely that more

errors will be identified post publication, we suggest in Appendix B that Ofgem proposes a plan and timetable for a further review of the RIIO-ED2 RIGs ahead of the end of the first RIIO-ED2 Regulatory Year.

In parallel with this RIIO-ED2 RIGs consultation, Ofgem has recently consulted on the process for deciding the overarching framework design for the next price controls – framework for future systems and network regulation (FSNR)¹. Ofgem highlights in the FSNR consultation that their preliminary analysis re-affirmed the view that network price controls should be tailored to unlock whole system benefits to consumers, which includes looking at alternative, simpler approaches to incentive regulation. Ofgem's Workstream 2 is looking at simplification and is currently focussed on the cost assessment process for future price controls. An example is whether costs could be reported as "BAU" versus "non-BAU". If this is the decision for future price controls it is important that historical costs can be captured and reported in the required way, and hence the output of Ofgem's FSNR working group and the RIGs working group need to be aligned to capture the costs in the required way for the ED2 period.

Our response has three elements:

- Appendix A – Major outstanding issues
- Appendix B – Generic RIGs development process issues
- Appendix C – Marked up copies of guidance and commentary documents with proposed corrections and amendments.

Our response should also be read alongside the Gitlab issues that we have raised. Where applicable, we have provided Gitlab issue reference numbers in this response to aid Ofgem's review.

We look forward to working constructively with Ofgem in the coming weeks, as we work towards a final set of RIGs which deliver the objective of regulatory reporting for RIIO-ED2.

If you have any queries please contact either Dawn Broderick at dbroderick@nationalgrid.co.uk or Andrzej Michalowski at amichalowski@nationalgrid.co.uk.

Yours sincerely



Paul Branston
Regulatory & Government Affairs Manager
National Grid Electricity Distribution

¹ <https://www.ofgem.gov.uk/publications/consultation-frameworks-future-systems-and-network-regulation-enabling-energy-system-future>

Appendix A - Major outstanding issues

There are a number of outstanding issues that have not been addressed during the ongoing working groups or Gitlab processes. Some of these relate to fundamental errors in the reporting packs. We therefore draw specific attention to these issues as they should be the priority for resolution before publication of the final RIGs.

Table M6 SRVD & LVSVD - Logic error used for determining volume driver values, which underfunds DNOs for allowed activities (Gitlab #416)

Table M6 calculates adjusts the volumes of activity that flow through to volume drivers for volumes that have been disallowed.

At present, the flow of the calculation uses incorrect logic which leads to an over-adjustment for disallowed volumes. The consequence of this is that DNOs will be underfunded for allowed activity volumes due to Ofgem's incorrect calculation and application of the cap.

The values that are pulled through to the revenue R4 table are based upon the data in rows 111-133, which represents Pre-TIM: Out-turn allowances (with cap, post-disallowances).

M6 is structured with five blocks of data:

- (1) The cost of disallowed volumes (currently labelled as Request disallowed)
- (2) Pre-TIM: Out-turn allowances (without cap, pre-disallowances)
- (3) Pre-TIM: Out-turn allowances (without cap, post-disallowances)
- (4) Pre-TIM: Out-turn allowances (with cap, pre-disallowances)
- (5) Pre-TIM: Out-turn allowances (with cap, post-disallowances)

The last block is used to pass data through to R4.

The current incorrect logic subtracts the disallowed volumes from the value of the cap. The correct logic should subtract the disallowed volumes from the volumes delivered to derive allowed volumes and then compare allowed volumes against the cap.

The logic should be:

- Value of disallowed volumes identified
- Value of delivered volumes identified
- Value of allowed volumes identified (delivered - disallowed)
- Value of allowed volumes compared to cap

To fix the logic the following needs to be changed:

- Delete block 5, Block 3 already subtracts the values of disallowed volumes from the value of delivered volumes
- Change block 4 to be based upon data in block 3, instead of block 2
- Link the data in R4 to the revised block 4.

- Block 4 should be labelled as per the deleted block 5 "Pre-TIM: Out-turn allowances (with cap, post-disallowances)"

The following example illustrates the logic error:

- A DNO carries out 120 volumes
- Ofgem determines that 30 volumes are disallowed
- So allowed volumes = 90 (120-30) - these allowed volumes should be funded (provided they don't exceed the cap)
- The DNOs cap is 100 volumes
- The current logic subtracts the disallowed volumes from the cap.
- This leads to funded volumes being based upon 70 volumes (100-30)
- This underfunds the DNO for the valid volumes delivered (i.e. it only fund 70 volumes, when 90 volumes should be funded)

This is a significant error that incorrectly underfunds DNOs for valid activities and therefore needs to be corrected.

Various CV2 secondary load reporting guidance clarifications (Gitlab #405-407)

The reporting for secondary reinforcement has been significantly expanded for RIIO-ED2 with requirements including data on actual activity being linked to forecast utilisation and data on utilisation of the asset base.

The guidance for the population of these areas is unclear in some places and could benefit from being rewritten and supplemented with examples. Examples would be especially useful where non like-for-like activities are carried out (e.g. where ground mounted transformers replace pole mounted transformers).

We therefore propose revised wording and examples to be included in the guidance. These have been highlighted as Gitlab issues as well as being included as suggested changes in the track-changed guidance documents submitted alongside this letter.

We urge Ofgem to consider the inclusion of these clarifications to guidance.

Expansion of asset register categories

Various issues have been raised by other DNOs that suggest the expansion of asset register categories. We have provided detailed responses to all of these proposals in the comments in Gitlab, suggesting that none of the changes should be made to the master list of asset categories.

Some of the proposals seek to address cost reporting anomalies, most of which can be resolved by revisions to guidance.

The knock on impact of introducing additional asset categories should be considered. The categories are included in all investment drivers that impact asset additions and disposals, so reporting would be required against all these investment drivers (unless they are greyed out). The categories are also included in the overall asset population volume tables, which require historical volumes to be known (but depending on the asset, such data may be incomplete/difficult to obtain). Some asset categories also require an age profile (unless greyed out).

We also highlight that the asset categories are used for price control cost drivers such as MEAV, which if constructed from incomplete or estimated data can lead to distortions in cost benchmarking.

Therefore introduction of new asset categories has to be considered with caution and avoided where possible.

We propose that no changes are made to the asset categories.

Introduction of PCFM Interface and new T and R tables into the CVR packs

The introduction of the PCFM Interface and the new T and R tables into the reporting packs, along with the need to align with the PCFM Guidance document, is a significant change to the RIGs. There are still major issues which need to be resolved which we highlight here. Please also refer to Gitlab and the guidance documents for further detailed issues which also remain to be resolved.

To improve and clarify the relationship between outputs from the revenue link tables in the other RIGs annexes and table R5 in the CVR, NGED has proposed a new revenue link table, R5a, which is similar to the table in the RIIO-ED1 revenue reporting pack. This proposed template has been attached in Gitlab issue #373. We very much encourage this proposal is adopted to simplify the process and improve consistency of completing table R5.

The introduction of cap rate 2 reporting for the purposes of populating the PCFM has been an ongoing issue through the working groups and in Gitlab. We note that this is still in development. The tables will be used as part of the interim PCFM dry run process this year, and DNOs are required to use this process for tariff setting. It's imperative that these issues are resolved, mindful of the complexity of enacting the policy that has been set.

Annex B CVR will be submitted annually on 31st July each year. Further versions of the CVR will also be required to accompany each dry run of the PCFM, which could include changes to the 31st July version of the CVR. The status of each of these submissions needs to be clear, as having multiple versions of the CVR, submitted to different teams in Ofgem, is likely to cause confusion.

The introduction of the PCFM Interface and new T and R tables means there are now more requirements for forecast data submissions in the ED2 CVR pack. We would suggest that, as a point of principle, it is set out that any forecast data is only provided in these tables, with no forecast data needed to be provided in any of the other tables in the CVR packs (e.g. the C, CV, V, M tables). Guidance needs to be clear on the provision of actual vs forecast data to avoid confusion and to maintain the integrity of the packs. Although this is a general principle point, we have raised some specific issues on this as follows:

- PCFM Guidance, section 4, DRS forecasts – we propose that any DRS forecasts are included only in the PCFM Interface table and not in table CV39, as set out in the current guidance (see marked version of the PCFM Guidance document)
- CVR pack, table M14 Drivers – we propose that the potential requirement for forecast data is removed from Annex B guidance (para 6.80) for this table. See also Gitlab issue #419

We urge Ofgem to consider and address all remaining points as far as possible. This is imperative for ensuring the interim submission of the 1st dry run PCFM due on 31st August 2023 runs as smoothly as possible.

PCFM Guidance and timing of PCFM dry run process

The PCFM guidance document is unclear on the number and timing of dry runs between August and December, stating “There will be one or more dry runs of the ED2 PCFM between the licensee’s initial dry run submission on 31 August and the final run in December.”

Given the new requirements to provide CVR data with the dry runs, which requires input from multiple teams, the possibility of another dry run at an unknown date would require significant resource planning from August to December to have teams on standby to respond for the whole of this period. Whilst we recognise that there have been dry run processes in RIIO-ED1, these did not involve a resubmission of such a significant volume of information, and the timing of dry runs was clearly signalled well in advance by Ofgem.

Ofgem states that “The number of dry runs needed will depend on the number and timing of Variable Value updates required for the licensee in any particular Regulatory Year.” It is therefore unclear what events would trigger Ofgem to require a dry run, given the number and significance of values which will not be available until November (see below). If a variable value update becomes available after the 31st August submission, can this simply be included in the dry-run 2 that will take place during November, and the uncertainty over the requirement for an additional dry run be removed?

In relation to the timing of dry and final runs, the process at the end of November appears very condensed. The PCFM guidance states that the Authority will provide an update to the Ofgem-provided variable values during the first half of November. However, it appears from the ED2 Price Control Financial Handbook that Ofgem will update the forecast inflation assumptions from the most recent outlook available as at 30th November and also provide the licensee with the RPE model no later than 30th November. The licensee must then, within one week, submit an ED2 PCFM including these Ofgem-provided values (dry-run 2). This could therefore mean that licensees do not receive the updated Ofgem-provided variable values until 30th November, and are then required to submit an ED2 PCFM by 7th December.

By 10th December, the licensee must submit a final version of the ED2 PCFM to the Authority (final run) containing the updated variable values and value of Allowed Revenue that it intends to publish and use to set its network charges.

The licensee must then give the Authority Notice of publication of the ED2 PCFM, including a copy of the ED2 PCFM which the licensee intends to publish on its website, with no less than 14 days’

notice. Based on publication by 31st December, this would mean a third submission by 17th December.

It is unclear whether, having prepared a dry run 2 within a week following receipt of the inflation updates as at the end of November, there is value in then providing a final run version for 10th December (noting 10th December 2023 is a Sunday), followed by a notification by 17th December, or given these updates are so close together, whether there will have been time for any movement of values in the intervening period. If there has been no change between the dry run 2 and final submissions, could an option of simply confirming to Ofgem that this is the case be included in the drafting? Alternatively, could the Final Dry Run be considered to also be the provision of Notice of publication?

Given the significant new requirements in RIIO-ED2, we request Ofgem considers the number and timings of updates, ensuring sufficient time for appropriate review both by Ofgem and DNOs.

Alignment with reporting required for PCDs and other regulatory mechanisms

There are a number of new regulatory reporting requirements in RIIO-ED2 outside the RIGs. It was suggested at a previous RIGs WG by another DNO that some form of schematic would be useful to ensure that all requirements are recognised and that duplication between the RIGs and other reporting is avoided as far as possible. To date, we are not aware that this has been prepared.

We have flagged specific issues in Gitlab to ensure that the RIGs reflects requirements elsewhere, One example is the NGED specific 'New Depots' PCD. We have suggested an amended RIGs table and an insertion into the commentary to meet the requirements of the PCD Reporting Guidance. Our proposals are outlined in Gitlab issues #311 and 432. Another ongoing example is Cyber, which still needs further resolution, as outlined in Gitlab issue #69. The IT CVR tables (CV11, C4,C13) need to be amended to report Cyber OT and Cyber IT separately. To ensure consistency, there should also be an expectation set out in the guidance that the Cyber costs reported in these tables should align with the separate Cyber PCD reports, also required annually on 31st July.

We have contributed significantly to the separate working group discussions on the Streetworks table (M9). Streetworks is an example of a table that needs to be adapted to meet the needs of future benchmarking (the BPDT memo tables were not suitable for RIIO-ED2 benchmarking) and the future mid-period reopener. The table has been developed, but we think there is still further work to streamline it further (such as by further removing the distinction between traditional and new streetworks costs) and to ensure it can be reconciled to C1 (so it can work for future benchmarking). Our latest comments are reflected in the associated Gitab issue #66.

There has also been some development of table CV5 to collect additional information to inform the new Wayleaves & Diversions reopener. We still consider that further work is required by Ofgem to clarify the information they think they will need and its purpose. We have raised or contributed to Gitlab issues (see issues #189, 431, 454) and we have also included some comments in the marked-up version of the Annex B Guidance. Unless these points are addressed, we think there

could be inconsistency across DNOs in terms of what is provided, which negates the usefulness of any information collected.

We urge Ofgem to consider a wider reporting schematic to streamline reporting as far as possible and to also address all outstanding issues on Gitlab.

Development of the commentary requirements

The commentaries have not been subject to much review as yet in the process and in most cases have been mainly rolled forward from RIIO-ED1. For example there are examples of the Strategic Commentary referring to tables that no longer exist and RAG guidance still uses RIIO-ED1 targets. Also, the Annex D commentary for NARMs refers to tables that no longer exist in RIIO-ED2 and makes no reference to the RIIO-ED2 tables (see Gitlab issue #421).

To assist Ofgem with this review we have submitted a marked-up version of the Strategic Commentary and other annex commentaries alongside this response.

The Strategic Commentary, which includes Annex B CVR commentary, has not yet been updated to clarify requirements for the new T and R tables. At the same time, the PCFM Guidance also includes a requirement for each dry run submission of the PCFM to have an accompanying commentary. As the T and R tables are feeds into the PCFM, it is anticipated that commentary will be required on these tables as part of these submissions. Further consideration is required as to what is required in the Strategic Commentary and what is required in the PCFM dry run commentary, with the aim to avoid unnecessary duplication. We have raised this in Gitlab issue #450.

We have noted that the Annex B Guidance for table R6 Reopeners includes detailed guidance for the strategic commentary which is not yet in the current template (para 2.32). However we have concerns on the detailed nature of this requirement, and we think that these specific requirements should be removed from both the strategic commentary and the PCFM commentary. The detail requested seems to align more to the contents of the actual reopener application, rather than a commentary document on a table where the instruction (in para 2.31) is to outline a DNO's best estimate of a future reopener and the likely window.

We would also welcome consideration by Ofgem of removal of any parts of the commentary which are now superfluous. An example is the 'aggregated cost category performance and drivers' in section A.2 of the strategic commentary, which has served no purpose and not been used in RIIO-ED1.

The relationship between the Strategic Commentary and the PCFM commentary needs to be clarified, alongside amendments to the commentary documents, as proposed by NGED in this consultation response.

Appendix B – Generic RIGs development process issues

The process that Ofgem has adopted in the development of the RIGs has contributed to slow progress and delays to publication of the RIGs. We highlight some specific concerns in the sections below, so that future RIGs development can be a smoother, quicker process.

Use of Gitlab

Previously, Ofgem has used logs to track proposed changes and issues during the development of RIGs. This has allowed issues to be organised by table, focussed discussions on tables and the availability of a public record of the resolutions.

For the development of the RIIO-ED2 RIGs, Ofgem elected to use Gitlab to capture issues, enable comment threads and allocate them to staff at Ofgem.

We have found Gitlab cumbersome to use and time consuming to search through for comments relating to specific tables. It requires regular review to identify new comments, some of which may already be closed by the time of review.

Lack of familiarity with Gitlab, has meant that use of the system was initially slow, which has led to some of the delays in getting DNOs to provide comments or respond to existing comments.

Gitlab does allow dynamic discussion threads on issues. However, while this provides a benefit for those who monitor it consistently, it introduces a time wasting chore for infrequent users. Infrequent users have to trawl through the comments, and such review is carried out at different time by different DNOs. This means that there is a lack of coordination of the review of issues.

We urge Ofgem to return to using Excel logs that are shared periodically with clearly labelled version control, so that the need to continually monitor Gitlab is removed and that focus can be applied by all parties at the same time to resolve issues.

Timely response to gitlab issues

Ofgem proposed a parallel process to run alongside the informal and formal RIGs consultations. This has been welcome in order to continue working collaboratively on solutions.

However, in some instances, Gitlab issues have been assigned, but no responses have been received. This means that those raising issues are unclear on whether the issue has been acknowledged or what solution is being proposed. The absence of feedback means that progress cannot be made on related issues where reporting aspects have dependencies across the packs.

Given that Ofgem has proposed to use Gitlab, we urge Ofgem to respond to the issues raised and provide updated documentation to show the changes made, so that those raising issues can have the confidence that solutions are being developed and implemented correctly.

Removing unnecessary information

The RIGs have ‘ballooned’ to now require vast amounts of data to be submitted.

It has been observed that some aspects of this data have not been used for any purpose, either in price control benchmarking or other past or future regulatory mechanisms.

There is a cost to DNOs (and therefore customers) of capturing, recording, storing, analysing, assuring and reporting the data. We therefore urge Ofgem to reflect on the ongoing need for certain information.

We are pleased that Ofgem has been receptive to remove some tables that only applied in business plan data templates or for time-expired RIIO-ED1 mechanisms. But we find that Ofgem still has a reluctance to remove superfluous data submissions that have served no purpose. Ongoing further examples of these are the ‘aggregated cost category performance and drivers’ in section A.2 of the strategic commentary (Gitlab issue #194) and Annex B table CV35 Operational Training (Gitlab issue #67).

As some tables have been removed, we would suggest that some tidy-up of table numbers is now undertaken, especially on the memo (M) tables in Annex B, so that all tables have consecutive numbering to avoid future confusion. Currently there are 16 memo tables, with numbering ranging from M1 to M31.

We urge Ofgem to consider the removal of data submission requirements that have no Regulatory purpose.

Ongoing process for revealed errors post publication

There are still a large number of outstanding issues, with some errors being identified in Gitlab close to the deadline for this consultation response, We anticipate that Ofgem will seek to correct the errors identified in Gitlab and incorporate improvements and clarifications into the guidance before the publication of the final RIGs, but some may unavoidably remain outstanding.

There may also likely be some, as yet, unidentified errors or new errors introduced by the implemented solutions. Further issues could also be identified as DNOs complete the ‘mini’ CVR packs by 31st August 2023 as part of the 1st dry run PCFM submission.

We therefore anticipate that there will be a need for a further review ahead of using the full set of data templates for submission next Spring.

We propose that a log of these issues is created and time is allocated in November/December 2023 to review the issues and correct the data templates and guidance well ahead of the end of the Regulatory year. This will ensure that the RIGs packs used for submission after the end of the Regulatory Year are based upon packs with the errors corrected.

This should be based upon a focussed period of work, not a protracted process during the year.

We suggest that Ofgem proposes a plan and timetable for the review of the ED2 RIGs ahead of the end of the first RIIO-ED2 Regulatory Year.

Review of RIIO-ED2 Glossary

There is a need for Ofgem to look at the consistency between the reporting packs and the terms included within the RIGs Glossary.

The Glossary now contains some terms that are no longer in use in the reporting packs, or cases where the terminology has changed in the licence and in the tables over recent years but the Glossary has not been updated accordingly. There are new terms being used in the reporting pack, but not appearing in the Glossary. Some of these have been flagged in this RIGs review process, but many others will still remain.

We suggest that a fuller housekeeping issue is undertaken by Ofgem, post the direction of these RIGs, to fully align the Glossary to the reporting packs (including ensuring that all relevant terms in the reporting packs are defined in the Glossary and also removing any redundant terms from the Glossary).

Appendix C - Marked up copies of guidance and commentary documents with proposed corrections and amendments.

We have attached the following marked-up copies of guidance and commentary documents, which include proposed corrections and amendments. Where a document is not listed below, we have no further comment at this stage.

The marked-up copies are all based on the versions issued by Ofgem on 9th May 2023 as part of this consultation.

Guidance documents

- RIGs Overview
- Annex A Glossary
- Annex B Costs, Volumes and Revenue
- Annex D NARM
- Annex E Reinforcement
- Annex G Connections
- Annex I DSO
- PCFM Guidance

Commentary documents

- Annex B Strategic Commentary
- Annex D NARM Commentary
- Annex G Connections Commentary