

To:  
Electricity System Operator

Date: 30 June 2023

Dear Company Secretary,

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

We<sup>1</sup> propose to make modifications to the RIIO-2 RIGs document, the RIIO-2 RRP data templates and to the PCFM Guidance for the Electricity System Operator ("ESO").

**RIGs**

The RIGs and RRP are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from licensees to monitor performance against their RIIO-2 objectives and hold them to account.

As part of the enclosed Notices, we provide the following documents with proposed modifications [marked up]:

- RIIO-2 ESO – Regulatory Instructions and Guidance: Version 1.2;
- RIIO-2 ESO Regulatory Reporting Template: Version 1.3; and
- RIIO-2 PCFM Guidance: Version 1.2.

**Proposed modifications**

We are proposing a number of updates and modifications to the RIGs and RRP to align them with the National Grid Electricity System Operator Limited Electricity transmission Statutory Licence Consultation<sup>2</sup>. These include:

- Minor corrections to the RRP and PCFM Guidance following recent sector-specific RIGs consultations;
- Making necessary amendments to the RRP and PCFM Guidance relating to proposed amendments in the ESO PCFM following recent PCFM working groups;
- Adding items to the RRP to align these with the licence; and
- Minor updates to the RIGs background and amendments to align the RIGs with recent sector-specific RIGs consultations.

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

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<sup>1</sup> 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.

<sup>2</sup> Published concurrently to this consultation.

## **General updates**

We are proposing to update a number of snagging items that were identified during last year's AIP in the ESO RRP as well as during the recent sector-specific RIGs decisions.<sup>34</sup> Furthermore, we have made amendments relating to our discussions during this year's PCFM Working Groups.

This includes amending the Inflation update, and PCFM Input Summary tabs with the intent to now receive the relevant pass-through terms in nominal terms in the revenue sheets in the RRP. As such the 'Inflation update' tab is no longer needed. This results in necessary updates to the 'Pass Through' and 'PCFM Input Summary' sheet to ensure the nominal price base will be correctly read through in the 'PCFM input Summary' sheet.

The reason for these changes is to align formatting and calculations within the RRP with the RIIO-2 licence and PCFIs so that we are able to gather the relevant data required to administer and monitor the RIIO-2 price controls.

## **Amending the definition of totex**

We are proposing to amend the definition of totex in the RIGs to exclude any costs or legal fees incurred relating to an application for a Judicial Review or an appeal to the CMA in respect of a decision made by Ofgem. This is inline with the decisions we have published recently for the RIGs in Gas Transmission, Gas Distribution and Electricity Transmission.

The reason for this is that in our view legal fees incurred in challenging an Ofgem decision should not be recoverable through the price control and should not be subject to the sharing factor. These costs should be borne by network company's shareholders rather than the consumer because it is likely that any legal challenge against an Ofgem decision would be in the interest of shareholders rather than the consumer and hence we believe they should not be included in totex.

The effect of this is to modify the totex definition in Appendix 2 of the ESO RIGs.

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<sup>3</sup> [Direction to Modify the Regulatory Reporting Pack \(version 2.3\) and Regulatory Instructions and Guidance \(version 1.7\) May 2023 | Ofgem](#)

<sup>4</sup> [Decision on modifications to the Regulatory Instructions and Guidance \(RIGs\), Regulatory Reporting Packs \(RRPs\) and the PCFM Guidance RIIO-2 Year 2 | Ofgem](#)

## **Timeline**

If we implement the proposed modifications to the RIGs, they will take effect by 18 August 2023. For avoidance of doubt, this means that the data submitted in August 2023 (in respect of the 2022/2023 reporting year) would use the previous version of the RRP.

We welcome representations on our proposed modifications by 28 July 2023, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

**Grendon Thompson**  
**Interim Deputy Director**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**30/06/2023**

National Grid Electricity System Operator Limited

(a "Licensee")

**Notice under Part A of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") and Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) of the Electricity Transmission Licence (the "Licence") granted to the Licensee under section 6(1)(b) of the Electricity Act 1989 (the "Act").**

The Gas and Electricity Markets Authority (the "Authority")<sup>5</sup> hereby gives notice under Part A of SC B15 and Paragraph 5.2.22 of Special Condition 5.2 as follows:

**Proposal to modify the Regulatory Instructions and Guidance and PCFM 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>6</sup>.
2. Part A 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 Licensee that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed on its website, published alongside this Notice.
3. Paragraph 5.2.22 of Special Condition 5.2 of the Electricity Transmission Licence sets out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 5.2.22 of SC 5.2 the authority hereby gives notice to Licensees that it proposes to amend the PCFM Guidance in the manner indicated in the documents that can be accessed on its website, published alongside this notice.
4. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 28 July 2023 in relation to:
  - RIIO-2 ESO – Regulatory Instructions and Guidance: Version 1.2;
  - RIIO-2 ESO Regulatory Reporting Template: Version 1.3; and
  - RIIO-2 PCFM Guidance: Version 1.2.
5. The proposed modifications are summarised below:
  - Minor corrections to the RRP and PCFM Guidance following recent sector-specific RIGs consultations;

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<sup>5</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>6</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Making necessary amendments to the RRP and PCFM Guidance relating to proposed amendments in the ESO PCFM following recent PCFM working groups;
  - Adding items to the RRP to align these with the licence; and
  - Minor updates to the RIGs background and amendments to align the RIGs with recent sector-specific RIGs consultations.
6. The purpose of the proposed modifications is to update and align the RIGs and RRP with the National Grid Electricity System Operator Limited Electricity transmission Statutory Licence Consultation.
7. The Authority proposes that these modifications should take effect by 18 August 2023.
8. The Licensee must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

#### **Further information**

9. 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)).
10. Any representations on the proposed modifications must be made on or before 28 July 2023 to the ESO Team by email to [ESOPerformance@ofgem.gov.uk](mailto:ESOPerformance@ofgem.gov.uk)
11. 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".

**Grendon Thompson**  
**Interim Deputy Director**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**30 June 2023**