

To:
National Grid Electricity System Operator Limited

Date: 11 August 2023

Dear Company Secretary,

Decision 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

We¹ are issuing directions under National Grid Electricity System Operator Limited's ("ESO") electricity's transmission licence (the "Licence") to modify the RIGs, the RRP and the PCFM Guidance.

Please find enclosed the Direction setting out the modifications that we made pursuant to the Licence.

RIGs and RRP

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.

PCFM Guidance

The PCFM Guidance provides instructions and guidance to licensed network operators to enable them to complete the reporting requirements associated with updating various variable values and performance data in the Price Control Financial Model (PCFM) during the Annual Iteration Process (AIP).

As part of the enclosed Direction, we provide the modified versions of the following documents (clean and marked up versions):

1. RIIO-2 ESO – Regulatory Instructions and Guidance: Version 2.0;
2. RIIO-2 ESO Regulatory Reporting Template: Version 2.0; and
3. RIIO-2 PCFM Guidance: Version 1.2.

Decision

We have decided to make a number of modifications to the RIGs, RRP, and PCFM Guidance to align them with the National Grid Electricity System Operator Limited Electricity transmission Statutory Licence Consultation². These include:

- Minor corrections to the RRP and PCFM Guidance following recent sector-specific RIGs consultations;

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 [Statutory consultation on a proposal to modify the Special Conditions of the Electricity Transmission licence held by National Grid Electricity System Operator Limited – July 2023 | Ofgem](#)

- Making necessary modifications 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;
- Minor updates to the RIGs background and amendments to align the RIGs with recent sector-specific RIGs consultations;
- Minor snagging items and corrections to the RIGs following the response to the consultation; and
- Amending 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.

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

General updates

We have updated a number of snagging items that were identified during last year's Annual Iteration Process in the RRP as well as during the recent sector-specific RIGs decisions.³⁴ 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' sheets 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' sheet 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.

We have made a number of updates in the RIGs and RRP to clarify the price base required for certain inputs, and implemented the necessary price base conversions in the RRP where needed.

Additionally, we have made various updates to the PCFM Guidance, in order to align with any updates to the RRP and RIGs, as well as numerous housekeeping changes.

We have also included a number of snagging items and corrections that were identified in the response to the consultation.

For further details on changes to the RRP, please refer to the Change Log sheet at the front of the pack, for the RIGs and PCFM Guidance, please see the tracked changes within the documents.

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

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

Amending the definition of totex relating to legal fees

We have modified 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.

A Direction modifying the RIGs, RRP and PCFM Guidance is attached as an Annex to this decision letter.

Timeline

The modifications to the RIGs, RRP and PCFM Guidance will take effect from 11 August 2023.

Yours faithfully,

Grendon Thompson
Interim Deputy Director
Institutions for Net Zero, Energy Systems Management and Security
Duly authorised on behalf of the
Gas and Electricity Markets Authority

11 August 2023

Annex

National Grid Electricity System Operator Limited

(a "Licensee")

Direction under paragraph 3 of Standard Licence Condition B15 (Regulatory Instructions and Guidance) ("SLC B15") and paragraph 5.2.18 of Special Condition 5.2. (Annual Iteration Process for the ESO Price Control Financial Model) ("SpC 5.2") of the Electricity Transmission Licence (the "Licence") granted or treated as granted to the Licensee under section 6(1)(b) of the Electricity Act 1989 (the "Act").

Whereas -

The Gas and Electricity Markets Authority (the "Authority")⁵ hereby gives notice as follows:

1. The Licensee holds an Electricity Transmission Licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act") and is subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance ("RIGs") and the Regulatory Reporting Pack ("RRP") 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-ESO Business Plan 2 Final Determinations⁶ for the Licensee.
3. SLC B15 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SLC B15, the Authority gave notice to the Licensee on 30 June 2023⁷ that it proposed to modify the RIGs, as set out in that notice.
4. SpC 5.2 sets out the process for issuing and amending the PCFM Guidance. In accordance with paragraph 5.2.22, the Authority gave notice to the Licensee on 30 June 2023⁸ that it proposed to modify the PCFM Guidance.
5. The Notice required any representations on the proposals to be made on, or before, 29 July 2023.
6. The Authority received a response from the Licensee with proposals to amend the RIGs, RRP and PCFM Guidance. The Authority has considered the representations and has made a number of changes to the relevant documents.

⁵ 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.

⁶ [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

⁷ [Notice of proposed modifications to the ESO Regulatory Instructions and Guidance, Regulatory Reporting Pack, and Price Control Financial Model Guidance for RIIO-2 | Ofgem](#)

⁸ As referenced above.

7. The modifications refer specifically to information required to be submitted to the Authority on or before 28 July 2024 in relation to:
 - RIIO-2 ESO – Regulatory Instructions and Guidance: Version 2.0;
 - RIIO-2 ESO Regulatory Reporting Template: Version 2.0; and
 - RIIO-2 PCFM Guidance: Version 1.2.
8. The modifications are summarised in the letter to which this Direction is attached and can be seen in the versions of the documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to paragraph 3 of SLC B15 of the Licence, the Authority hereby directs that the RIGs and RRP be amended in the manner specified in the documents published alongside this Direction.
10. Pursuant to paragraph 5.2.18 of SpC 5.2 of the Licence, the Authority hereby directs that the PCFM Guidance be amended in the manner specified in the documents published alongside this Direction.
11. The modifications will take effect on 11 August 2023.
12. This Direction and the letter constitutes the reasons for the Authority's decision pursuant to section 49A of the Act.

Grendon Thompson
Interim Deputy Director
Institutions for Net Zero, Energy Systems Management and Security
Duly authorised on behalf of the
Gas and Electricity Markets Authority

11 August 2023