

To:

Electricity Distribution  
Network Operators; and  
Stakeholders

Date: 22 April 2024

Dear Company Secretaries and Stakeholders,

**Proposal to modify the Regulatory Instructions and Guidance ("RIGs") and the Price Control Financial Model ("PCFM") Guidance for RIIO-ED2**

We<sup>1</sup> are proposing to amend the RIGs and in particular the following documents for Electricity Distribution licensees:

- RIIO-ED2 RIGs
- RIIO-ED2 PCFM Guidance

Please find enclosed the Notice setting out our proposed changes issued pursuant to the relevant licence conditions for the sector.

**RIGs**

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

**PCFM Guidance**

The PCFM Guidance provides licensees with information on how to fill in the inputs in the Revenue sheets of the RIGs, which feed into the PCFM and are used in setting the licensees' Allowed Revenues through the Annual Iteration Process ("AIP").

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

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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.

- RIIO-ED2– Annex B Costs, Volumes and Revenue Guidance: Version 1.1;
- RIIO-ED2 PCFM Guidance: Version 1.1;

### **Proposed modifications**

We are proposing the following amendments to the RIGs and PCFM Guidance:

- Updating the RIGs to clarify audit requirements in relation to revenue reporting
- Revision of the AIP Dry Run timeline within the PCFM Guidance

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

### **General updates**

We are proposing to update the RIGs to include the requirement that revenue reporting information should be accompanied by a report addressed to the Authority from an Appropriate Auditor. This is a requirement which was removed in error during the development of the ED2 RIGs. These procedures provide Ofgem with an additional level of assurance, which we would not otherwise have over the values submitted to us.

We are proposing changes to the AIP Dry Run timeline within the PCFM Guidance. Discussions at the ED2 PCFM working group highlighted a lack of flexibility in the original Dry Run timeline which the changes we are proposing seek to address.

For further details on changes proposed to the RIGs and PCFM Guidance, please see the tracked changes within the documents.

We welcome representations on our proposed modifications by 20 May 2024, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

**Mick Watson**

**Chief Financial Advisor, Deputy Director**

**Duly authorised on behalf of the Authority**

**Electricity North West Ltd (ENWL)**  
**Northern Powergrid (Northeast) Ltd (NPgN)**  
**Northern Powergrid (Yorkshire) plc (NPgY)**  
**London Power Networks plc (LPN)**  
**South Eastern Power Networks plc (SPN)**  
**Eastern Power Networks plc (EPN)**  
**SP Distribution plc (SPD)**  
**SP Manweb plc (SPMW)**  
**Scottish Hydro Electric Power Distribution plc (SSEH)**  
**Southern Electric Power Distribution plc (SSES)**  
**National Grid Electricity Distribution (West Midlands) plc (WMID)**  
**National Grid Electricity Distribution (East Midlands) plc (EMID)**  
**National Grid Electricity Distribution (South Wales) plc (SWALES)**  
**National Grid Electricity Distribution (South West) plc (SWEST)**  
(each one a "Licensee", and together, "the Licensees")

**Notice under Part C of the Standard Licence Condition 46 (Regulatory Instructions and Guidance) ("SLC 46") and Special Condition 8.1 (Governance of the ED2 Price Control Financial Instruments) ("SC 8.1") of the Electricity Distribution Licence (the "Licence") granted under section 6(1)(c) of the Electricity Act 1989 (the "Act").**

The Gas and Electricity Markets Authority (the "Authority")<sup>2</sup> hereby gives notice under Part C of SLC 46 and under part B of SC 8.1 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") under SLC 46 and the PCFM Guidance under SC 8.1 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 to in the Licence, the RIIO-ED2 Final Determinations.<sup>3</sup> The PCFM Guidance provides Licensees with information on how to fill in the inputs in the Revenue sheets of the RIGs, which feed into the PCFM and are used in setting the Licensees' Allowed Revenues through the Annual Iteration Process.
2. SLC 46 and Part B of SC 8.1 set out the process for issuing and modifying the RIGs and PCFM Guidance, respectively. In accordance with Part C of SLC 46 and Part B of SC 8.1, the Authority hereby gives notice to the Licensees that it proposes to

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<sup>2</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>3</sup><https://www.ofgem.gov.uk/publications/riio-ed2-final-determinations>

modify the RIGs in the manner indicated in the documents that can be accessed on its website, published alongside this Notice.

3. The proposed modifications refer specifically to information required to be submitted to the Authority for the 2023/24 Regulatory Year in relation to:
  - RIIO-ED2– Annex B Costs, Volumes and Revenue Guidance: Version 1.1;
  - RIIO-ED2 PCFM Guidance: Version 1.1; and
4. The proposed modifications are summarised below:
  - Updating the RIGs to clarify audit requirements in relation to revenue reporting
  - Revision of the AIP Dry Run timeline within the PCFM Guidance
5. The purpose of the proposed modifications is to clarify existing reporting requirements for the licensees. The reasons for and effect of the modifications are described in the cover letter to this Notice.
6. The Authority proposes that these modifications should take effect by 1 July 2024.
7. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs and AIP process.

#### **Further information**

8. The RIIO-ED2 – Annex B Costs, Volumes and Revenue Guidance and RIIO-ED2 PCFM Guidance documents published alongside this notice show the proposed modifications as incorporated.
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 20 May 2024 by email to [david.simpson@ofgem.gov.uk](mailto:david.simpson@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”.

**Mick Watson**

**Chief Financial Advisor, Deputy Director**

**Duly authorised on behalf of the Authority**

**The Office of Gas and Electricity Markets**

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**[www.ofgem.gov.uk](http://www.ofgem.gov.uk)**