

To:

Electricity Distribution
Network Operators; and
Stakeholders

Date: 10 June 2024

Dear Company Secretaries and Stakeholders,

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

We¹ are issuing directions under the RIGs and in particular in relation to the following documents for Electricity Distribution licensees:

- RIIO-ED2 Annex B Costs, Volumes and Revenue Guidance
- RIIO-ED2 PCFM Guidance

Please find enclosed the Directions setting out our changes made pursuant to the relevant licence conditions for the sector.

RIGs

The RIGs 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.

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 Directions, we provide the modified versions of the following documents [clean and marked up versions]:

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.

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

Decision

We have decided to make the following amendments to the RIGs:

- 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 have updated 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 have updated 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 address.

Timeline

The modifications to the RIGs will take effect on 1 July 2024.

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")

Direction under Part C of the Standard Licence Condition 46 (Regulatory Instructions and Guidance) ("SLC 46") of the Electricity Distribution Licence (the "Licence") granted under section 6(1)(c) of the Electricity Act 1989 (the "Act").

Whereas –

1. The Licensee holds an Electricity Distribution Licence (the "Licence") granted or treated as granted under section 6(1)(c) of the Electricity Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. 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-ED2 Final Determinations.²
3. SLC 46 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 46.10 of SLC 46, the Authority gave notice to the Licensees on 22 April 2024³ that it proposed to modify the RIGs.
4. The Notice required any representations by licensees on the proposals to be made on, or before, 20 May 2024.
5. Prior to the consultation period closing the Authority received four responses.

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

³ [Regulatory Reporting Pack and Regulatory Instructions and Guidance - proposed modifications | Ofgem](#)

Having considered the responses received, we have decided to proceed with the changes to the RIGs proposed as part of the consultation with minor alterations to reflect the feedback in the responses received. These alterations are highlighted yellow in the marked-up versions of the Guidance attached to this Direction.

6. The modifications refer specifically to information required to be submitted to the Authority for the 2023/24 Regulatory Year in relation to:
 - RIIIO-ED2– Annex B Costs, Volumes and Revenue Guidance: Version 1.1;
 - RIIIO-ED2 PCFM Guidance: Version 1.1;
7. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs and PCFM Guidance documents specified above and published alongside this Direction.

Now Therefore –

8. Pursuant to Part C of SLC 46 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached Schedule.
9. The reason for the amendments set out in this Direction is to clarify existing reporting requirements for the licensees. Further details are contained in the Decision letter attached to this Direction.
10. The modifications will take effect on 1 July 2024.

Mick Watson

Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
10 June 2024