
Offshore Transmission Regulatory Instructions and Guidance: Tender Round 9

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These regulatory instructions and guidance (RIGs) are provided to OFTOs to enable them to complete the reporting templates that they are required to submit under their offshore transmission licence (Licence). This document applies to the licensee of a Licence granted in tender round 9 (TR9) only and does not apply to the licensee of a Licence granted in tender rounds 1-8 (TR1 to TR8).

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Foreword

Ofgem and the Department for Energy Security and Net Zero (DESNZ), have developed a regulatory regime for offshore electricity transmission. A key part of the regime is that a Licence may be granted to an OFTO following a competitive tender process run by Ofgem.

Under the terms of the Licence, licensees are required to submit cost, revenue and incentive reporting to the Gas and Electricity Markets Authority (the Authority). This document provides licensees with detailed instructions on what to report and offers guidance on how to complete the reporting templates.

Associated Documents

Offshore transmission owner reporting pack for TR9 licensees.

Available from the Ofgem website www.ofgem.gov.uk.

Executive Summary

This document is the Offshore Transmission Owner Regulatory Instructions and Guidance (RIGs) referred to under Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting) of the Licence.

This document covers provision of information relating to revenues and cost reporting and covers provision by the licensee to the Authority¹ of information relating to the Licensee's costs, financial position, and performance. In addition, the RIGs have been adapted to incorporate Amended Standard Condition E12 – D2 (Equity Transaction Reporting Requirement)².

These RIGs apply to Licences granted for projects in TR9 only. The existing RIGs published shall continue to apply to licensees in respect of Licences granted for TR1 to TR8 projects. The reason for there being separate RIGs applying to Licences for TR1 to TR8 projects is that the Licence revenue formulae differ.

The information described in this document is required for several reasons:

1. Compliance assurance

The information collected through these RIGs allows Ofgem to effectively monitor the revenue of the consolidated transmission business and to confirm that the revenues charged are in line with the tender revenue stream (TRS) as adjusted for incentives.

2. Monitoring incentives

In order to ensure that the incentives are working as intended and that they are properly balanced we need to obtain and review reliable data about performance against incentives and the associated revenue impact.

3. Licence compliance

Conditions E12 – D1 (Offshore Regulatory Reporting) and E12 – D2 (Equity Transaction Reporting Requirement) of the Licence require this data to be collected and provided to Ofgem.

¹ Ofgem is the office of The Gas and Electricity Markets Authority ('the Authority'). The terms 'Ofgem' and 'the Authority' are used interchangeably in this document.

² <https://www.ofgem.gov.uk/publications-and-updates/decision-under-section-11a-1-b-electricity-act-1989-modify-offshore-electricity-transmission-licenses-so-introduce-amended-standard-condition-e12-d2-equity-transaction-reporting-requirement>

4. Building knowledge

Acquiring experience and knowledge of the actual costs involved in operating an OFTO will enable the Authority to evaluate subsequent tenders more effectively.

5. Financial health

In performing its functions, the Authority has regard to the need to secure that an OFTO can finance its offshore transmission activities and obligations. Monitoring enables us to respond as early as possible in the event an OFTO's financial health deteriorates.

The RIGs provide a framework that enables OFTOs to collect the data and report it to Ofgem in a consistent format. The RIGs inform OFTOs about the information we plan to collect, guide them on how to provide this information and enable them to put the systems in place to collect the data in the detail we require.

With regard to revenue reporting, this document covers two separate reporting requirements under Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting):

- **Revenue Reporting**

Covering the provision of audited and forecast revenue as stipulated by paragraph 7 of Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting). This aims to provide Ofgem with the audit trail of all allowed revenue generated by the licensee in each relevant year; and

- **Incentives Reporting**

Providing information on incentives schemes, specifically the availability incentive and the incremental capacity incentive under Amended Standard Condition E12 – J4 (Restriction of transmission revenue: Annual revenue adjustments).

These RIGs may be modified in accordance with the procedure detailed in Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting). **For the avoidance of doubt licensees must not change the structure of the RIGs** – this includes adding or removing rows or columns even if there is no data in them. If a licensee identifies a need for a change, then they should raise the matter with Ofgem, and we may make the change to the master version of the reporting template as required.

1. Introduction

- 1.1. Amended Standard Condition E12 – D1 establishes the requirements of the RIGs.
- 1.2. The RIGs contain the specified information to be reported in the templates provided; the specified information is identified in Chapters 2, 3, 4 and 5.
- 1.3. Amended Standard Condition E12 – D2 requires the annual submission of relevant equity transactions to the Authority. Details of these requirements are outlined in Chapter 6.
- 1.4. Chapter 7 covers reporting arrangements and the provision of revenue returns to the Authority with Chapter 8 providing details on completing the templates.
- 1.5. For the avoidance of doubt this document is subordinate to the Licence conditions. This document will not change, alter, or amend, any definition or obligation contained within the Licence. In the event of any inconsistency between the Licence conditions and this document the Licence conditions will take precedence.
- 1.6. These RIGs may be modified, from time to time, in accordance with the change process set out in paragraphs 15 to 21 of Amended Standard Condition E12 – D1. Ofgem recognises that any significant changes to the scope or form of the information that it requests from the licensees could not only increase the regulatory burden upon licensees but may also increase the perception of regulatory risk. Ofgem will take all reasonable steps to minimise the number of changes to the scope and form of the information it requests in relation to this document, consistent with Ofgem carrying out its functions under the Electricity Act 1989.
- 1.7. If any of the guidance contained in this document is at any time not sufficiently clear to a licensee, then that licensee should contact Ofgem for further guidance and to discuss potential changes to the reporting templates which may be required. In the first instance queries should be directed to:

Ilona Groenewald
Networks: OFTOs
Ofgem
Ilona.Groenewald@Ofgem.gov.uk and Offshore.Reporting@Ofgem.gov.uk.
020 7901 1851

2. Specified Information – general

Sign Off

2.1. The input cells on the sign off sheet are to be completed by a director of the licensee. Once all other data has been collected in the return and immediately prior to submission of the return to the Authority:

2.2. each individual tab of the return should be reviewed, and the name of the preparer and the name of the reviewer recorded in the specified input cells on the left of each tab. The reviewer should also tick the box to indicate that the tab has been reviewed and all issues properly resolved.

2.3. For the avoidance of doubt the review of each tab need not necessarily be performed by a director of the licensee though the declaration on the 'Sign off' tab must be. The director making the declaration must have taken adequate steps to satisfy themselves that they are able to make the declaration shown on that tab.

Universal Data

2.4. **Company number:** this should be the official company registration number issued by Companies House upon incorporation of the licensee.

2.5. **Company name:** this should be the official name of the company as reported on filings submitted to Companies House. If the name of the company has changed during the year, then the name reported in this tab should be the name as at year end, i.e., 31 March.

2.6. **Company short name:** this should be a standard abbreviation of the name of the licensee which should be used whenever the name of the licensee is to be abbreviated.

2.7. **Project:** this should be the name of the offshore transmission system that was granted a licence in respect of TR9.

2.8. **Reporting year:** this is the most recent year for which data are being submitted. The regulatory reporting year runs from 1 April to 31 March. It is anticipated that where Licence grant does not coincide with the start of the regulatory reporting year that the first reporting period will be for a period of less than 12 months (i.e., to next 31 March). The convention used in naming reporting years is to use the name of the year in which the regulatory reporting year ends. For example, the regulatory reporting year which started on 1 April 2020 and ended on 31 March 2021 is referred to as '2021'.

Where a licence is granted between 1 January and 31 March the licensee will not be required to submit RIGs on the first 31 July following licence grant. The licensee should instead submit RIGs on the following 31 July which include the initial period between licence grant and the first 31 March regulatory year end. In these cases, the first RIGs submissions will be for a period of between 12 and 15 months.

2.9. **Version (Number):** where cost reporting templates have been resubmitted for any reason each submission should be separately identified by its version number. The version numbers should be successive positive integers such that the first submission is always version 1, and any subsequent resubmissions will be labelled version 2, 3, 4 etc.

The Authority's agreement is required before any resubmission of information set out in a report produced in accordance with these RIGs can be made and in any such instance the report concerned must be resubmitted in full. The resubmission must only be accompanied by a letter signed by a director where significant changes have been made and the Authority or the licensee decide such a letter is required.

In addition, for each resubmission a separate explanation must be provided listing each cell that has been amended and sufficient commentary to explain the reasons for the changes. Within the explanation the prior figure and new figure should also be included for comparison.

2.10. **Submitted date:** paragraph 7 of Amended Standard Condition E12 – D1 requires that the completed cost reporting templates be submitted by 31 July following the end of the year to which the information relates. For example, the data for the reporting year 2021 should be submitted by 31 July 2021. This cell should specify the date on which the return was sent to the Authority.

2.11. **Date to which last statutory accounts were made up:** this is the date to which accounts were prepared or are being prepared for submission to Companies House. This should be the most recent such date which fell within the reporting year. For example, if a licensee were to prepare its statutory accounts to 31 May each year, then, in the reporting year 2021 the 'Date to which last statutory accounts were made up' ought to be 31 May 2020 (since 31 May 2021 does not fall within the reporting year 2021).

3. Specified information – revenue reporting

3.1. The specified information for revenue reporting is as described below.

3.2. **Specified Information for Transmission Owner activity** means:

- the term: 'Allowed Transmission Owner Revenue' and all subsequent terms used in its calculation as described by the Amended Standard Conditions E12 – J2 to J4; and
- Excluded Services information as defined in Amended Standard Licence Condition E12 – J10.

3.3. **Allowed Transmission Owner Revenue (OFTO_t)** defined as:

$$\text{OFTO}_t = \text{BR}_t + \text{PT}_t + \text{PA}_t - \text{K}_t$$

where each of the terms is explained below including the cross references to the relevant clauses in the Licence conditions where the detailed terms are defined.

3.4. **Base Revenue Term BR_t**: BR_t refers to base transmission revenue as defined in Amended Standard Condition E12 – J2:

$$\text{BR}_t = \text{PR}_t(\text{TRS}_t(\text{RIT}_t \times \text{BI}_{\text{TRS}} + (1 - \text{BI}_{\text{TRS}})) + \text{MRA}_t(\text{RIT}_t \times \text{BI}_{\text{MRA}} + (1 - \text{BI}_{\text{MRA}})) + \text{PTR}_t(\text{RIT}_t \times \text{BI}_{\text{PTR}} + (1 - \text{BI}_{\text{PTR}})))$$

with all subsequent terms defined in that condition.

3.5. **Pass Through Items (PT_t)**: PT_t refers to Pass Through items and is defined in accordance with paragraph 1 of Amended Standard Condition E12 – J3. It is derived from the following formula:

$$\text{PT}_t = \text{LF}_t + \text{RB}_t + \text{CEL}_t + \text{DC}_t + \text{IAT}_t + \text{TPD}_t + \text{TCA}_t + \text{MCA}_t - \text{RFG}_t$$

with all subsequent terms defined in that condition.

- 3.6. **Performance Availability (PA_t):** PA_t refers to incentive payments and is defined in accordance with Amended Standard Condition E12 – J4 paragraph 1. It is derived from the following formula:

$$PA_t = AI_t + ICA_t$$

with each subsequent term defined in that condition.

- 3.7. **Correction Factor (K_t):** K_t is the revenue restriction correction factor and is defined in accordance with paragraph 4 of Amended Standard Condition E12 – J2. It is defined by the following formula:

$$K_t = (AR_{t-1} - OFTO_{t-1}) \times [1 + (I_t + PI_t)/100]$$

With all subsequent terms defined in that paragraph.

- 3.8. The specified information for the incentive reporting is:

- 3.8.1. **Specified information relating to availability incentive:** Specified information for the availability incentive as defined in Amended Standard Condition E12 – J4 shall mean the following:

- Reduction in capacity (MWhr)
- Number of events impacting the incentive calculations
- The other availability incentive inputs shown in the associated reporting templates

All outages need to be reported, even if an exclusion is being sought. If there have been no outages, then this need not be stated, and the input cells left blank.

- 3.8.2. **Specified information relating to incremental capacity incentive:** Specified information for the incremental capacity incentive, defined in Amended Standard Condition E12 – J4, shall mean the following:

- kVA of additional capacity available
- Additional capacity made available

4. Specified information – cost reporting

4.1. The information to be provided as part of the cost reporting regime identified in Amended Standard Condition E12 – D1 is provided by populating a template workbook containing multiple spreadsheets. This section sets out the definitions of the terms used in those spreadsheets. The headings used in this document mirror the headings used in the cost reporting templates (i.e., the spreadsheets).

4.2. All cost and revenue data should be reported on an accruals basis unless otherwise specified.

4.3. All monetary amounts should be reported in £m and to three decimal places.

4.4. All data is to be reported in nominal terms unless otherwise specified.

4.5. In several cases the cost reporting templates are designed to capture the data across the duration of the Licence. In these cases, all previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.

4.6. A general principle to be applied in the completion of the cost reporting pack is:

Where possible the data requested should be provided. Where it is not possible for any reason to provide the data in the detail required this should be explained in a commentary submitted alongside the reporting pack.

4.7. The template includes 'spare' rows to cater for some variation in the way OFTOs are accounted for (e.g., under different accounting treatments). The Authority welcomes the opportunity to engage with OFTOs to further develop the reporting pack to be more flexible, if necessary, in dealing with different accounting approaches.

Sheet 8. Operating costs

4.8. **Income figures:** these lines reference the data in tab 14 (Statement of Comprehensive Income). They are included in this tab for ease of reference only.

4.9. **Operating and maintenance costs:** the split of O&M costs here is designed to be exclusive and universal such that any cost fits into one and only one category. If a cost arises which does not fit into precisely one category, then the licensee is to contact Ofgem to discuss the matter. This situation is not expected to arise since the headings classify the costs according to the cause of the O&M activity and any given O&M cost should be identifiable as either ongoing, reactive or reserve build-up.

4.10. Where individuals are involved in different types of O&M work the associated labour costs should be allocated on an appropriate basis (e.g., hours worked). Overhead costs should not be absorbed into O&M or other activity costs but should be separately reported under SPV costs.

4.11. **Insurance:** the 'insurance type' shown in row 27 should be filled in as either 'self-insurance' or 'third party insurance' to indicate the nature of the OFTO's insurance arrangements. Rows 31 – 45 are designed to record all aspects of property insurance costs. As with other cost reporting categories if a cost cannot be properly allocated to one of the categories shown then it is to be discussed with Ofgem. The insurance memo items in rows 53 - 74 are not included in the cost total. These rows should be completed to show the sum insured and deductible applicable to each of the asset classes and insurance categories shown.

4.12. **Decommissioning:** the 'accruals' line should record the decommissioning cost in each period in accordance with the GAAP being used. Therefore, if there is a net increase in decommissioning provision in the period then the movement should be shown here. The 'cash' line should record only actual expenditure on decommissioning, i.e., should not record provision movements.

4.13. **SPV costs:** all overhead costs are to be shown in rows 80 - 97. If the licensee identifies a cost which does not fit into one of the categories shown, then they are to use the 'other' cell provided and input the description of the costs in question.

4.14. **Replacement expenditure (various):** these cells are for recording the cost of any replacement capex. Items costing less than £1,000 should be aggregated and reported as 'low value items'. Items costing £1,000 or more should be separately identified and reported under the relevant heading (offshore platform, onshore to offshore transfer, etc.).

4.15. **Bid costs:** The costs associated with the tender process should be reported here split out by the categories shown with other categories of cost separately shown in the input cells provided.

4.16. In the event that these costs are capitalised then the check sheet will show an error, and this should be explained by way of explanatory note submitted alongside the reporting pack. The amounts of these costs (whether expensed or capitalised) should be reported in the cost reporting pack.

4.17. **Other costs:** These cells should be used to record costs which do not fit into any of the previous categories.

Sheet 9. Financing – equity and intercompany debt

4.18. **Equity:** the initial equity used to incorporate the licensee should be reported as an equity injection in the first period.

Dividends should be reported based on date declared, i.e., dividends are to be reported if and only if the date on which they were declared falls within the reporting year.

The reporting convention is as shown in the spreadsheet. Increases in equity are to be shown as positive, decreases are to be negative. Dividends declared should also be a positive figure.

If the licensee engages in other equity transactions such as share buybacks, then they should contact Ofgem for guidance on how best to report this.

4.19. **Subordinated debt:** these cells are for recording the principal outstanding and any interest payments or compounding of interest. The name of each tranche ought to be sufficient to identify the counterparty and any significant terms of the loan which are not captured elsewhere.

The reporting convention is as shown in the spreadsheet - increases in debt are to be shown as positive, decreases are to be negative.

4.20. **Debt raised by holding companies:** Where a licensee is financed by debt which is raised at holding company level details of the respective balance sheet positions should be shown here along with the identity of the holding company.

The debt raised by this holding company should be included in the cost reporting pack as if the debt were raised by the licensee itself such that the cost reporting pack provides details of all the financing which specifically finances the licensee either directly or indirectly.

4.21. **Parties to debts:** Where one or more of the financial instruments detailed in the cost reporting pack was entered into by the holding company on the OFTOs behalf (e.g., if the HoldCo raises a bond and on-lends the proceeds to the licensee) then each such financial instrument should be identified. Hence in the bond example, the party to 'Bond 1' would be entered as 'HoldCo' in row 92. All financial instruments which the OFTO enters into on its own behalf should be identified as such in rows 84 – 102. Clearly 'Both' should be entered in rows 84 – 86 where there are loans between OFTO and HoldCo.

4.22. In situations where there is no debt raised at HoldCo level specifically for on-lending to the licensee then 'OFTO' should be entered in each of rows 84 – 102.

Sheet 10. Financing – Bank / ECA Loans

4.23. As with the subordinated debt the name of the tranche should specify the counterparty and any key terms. In situations where the debt is syndicated amongst five or fewer banks then each bank should be named.

The first debt brought forward figure should be £nil in all cases and the acquisition debt should be recorded as 'senior debt issued' in the first period.

The reporting convention is as shown in the spreadsheet - increases in debt are to be shown as positive, decreases are to be negative.

4.24. The interest rate benchmark rate used for the period should be selected from the options: London Interbank Offered Rate (LIBOR) or the Sterling Overnight Index Average (SONIA). The applicable figure reported for each period ought to be the weighted average of the data used for the calculation of the interest due on the senior debt for that period.

Sheet 11. Financing – Bonds / Private Placements

4.25. Where a licensee has issued a bond / private placement, the details are to be recorded in this tab. In the case of zero-coupon bonds, the notional increase in the amount of bond repayable should be recorded under the heading 'Unpaid coupons rolled up' . In the case of index linked bonds the increase or decrease in the value of the principal as a result of indexation should be recorded under the heading 'indexation adjustment' .

4.26. The description of the bond ought to include the coupon and maturity of the bond.

Sheet 12. Financing – derivatives and other

4.27. **Derivatives:** it is anticipated that licensees will obtain one or more swaps as part of their hedging strategy. The data collected here are intended to enable the Authority to monitor the cash and fair value impacts of these swaps.

The cash flows for each swap should show the notional amount payable and receivable on each swap, even if the swaps are settled on a net basis. To deduce the fair value of each swap it is necessary to discount the cash flows using an appropriate discount rate as shown in the spreadsheet. It is for the licensee to determine the value of the appropriate discount rate (e.g., by reference to index linked gilt curves). From these inputs the spreadsheet calculates the fair value of each swap as the NPV of future cash flows. The licensee should satisfy themselves that the fair value figures being reported are consistent with the fair value figures being used for accounting purposes (i.e., it should agree to the fair value of the derivative shown on the balance sheet).

In the case of other (i.e., non-swap) derivatives only the fair value needs to be reported. This fair value should also agree with the fair value used for accounting purposes.

4.28. **Swap type:** this cell is for recording the underlying attribute which is being swapped. If the licensee enters into a swap other than for interest or inflation, then they should record it in the input cell in column G. The input cells in column G feed the drop-down list available against 'swap type' in column D (e.g., G13 feeds D12).

4.29. **Swap underwriter(s):** in situations where the swaps are underwritten by several underwriters each of those underwriters should be listed in this cell with a semi-colon between underwriters.

4.30. **Other instruments:** these lines are intended to capture other financial instruments and securities such as performance bonds. The nature, purpose and keep terms (such as call date and conditions) should be stated in the description box.

Sheets 9, 10 & 11. Financing – various

The following guidance applies variously to tabs 9, 10 and 11.

4.31. **Name of tranche:** The name of each tranche of each type of debt should identify the counterparty and any key terms associated with the debt.

4.32. **Interest rate:** The interest rate should be shown to three decimal places. Where the rate is variable the details should be specified in the cell, e.g., 'LIBOR+2.000%' or 'SONIA+2.000%'.

4.33. **Amount issued:** The amount issued figure should be the year end figure such that the total of all amounts issued agrees to the balance sheet.

4.34. **Maturity:** If a loan has no fixed repayment date, then brief details should be provided in the 'maturity' cell.

4.35. **Bonds / Private Placements:** The details of the bond / Private Placement should be specified in the cells provided. Any special characteristics (e.g., index linked or zero coupon) of the bond should be highlighted in the name of the bond.

Sheet 13. Tax

To ensure that the data provided is as reliable as possible whilst simultaneously reducing the reporting burden the licensee should provide alongside the cost reporting pack a copy of the CT600 form which they have most recently provided to HMRC. We accept that this will mean there is a lag between the period to which the return relates and its eventual submission, but this is unavoidable. The licensee should also provide screenshots of the CT600 in the cost reporting pack.

Should the CT600 or HMRC be replaced by successor form(s) or organisation(s) respectively then the references above should be interpreted as references to those successor form(s) or organisation(s).

Reconciliation from the CT600 to statutory accounts will be required in due course, though no reconciliation pro-forma is currently shown in the cost reporting pack.

Sheet 14. Statement of comprehensive income

The whole table should be completed with actual data for all elapsed periods (i.e., prior to and including the reporting year) and with forecast data for all future periods. This table and the statement of financial position attempt to be sufficiently flexible to reflect any of the possible accounting treatments an OFTO may adopt. Hence it is expected that some rows will contain only nil values - for example there would not likely be both IFRIC 12 amortisation and depreciation of operational assets.

4.36. **GAAP used (UK or IFRS):** All UK companies are expected to converge to IFRS in due course. In any event licensees should record which GAAP has been used in the preparation of the statement of comprehensive income for each year. The accounting treatment used in preparing the statement of comprehensive income and the statement of financial position should be specified in row 10. If the accounting treatment used is not shown in the drop-down list in row 10 the licensee should select 'Other' and specify in row 11 the accounting treatment used.

4.37. **Revenue:** revenue should be reported in accordance with the GAAP specified at the top of the table.

4.38. **Other operating income:** other operating income should be reported in accordance with the GAAP specified at the top of the table.

4.39. **Operating costs:** operating costs should be reported in accordance with the GAAP specified at the top of the table. Where these figures are reported under the same headings as in the operating assumptions and operating costs tab then the figures should agree.

4.40. **Interest income and similar income:** these figures should be reported in accordance with the GAAP specified at the top of the table.

4.41. **Interest expense and other finance costs:** these figures should be reported in accordance with the GAAP specified at the top of the table. The interest payable figure should agree to the total interest payable on bonds, senior debt and subordinated debt. If the licensee has other interest which should be reported as interest payable under the GAAP being used, and the table does not include the necessary row heading then they should contact Ofgem for guidance.

4.42. **Taxation:** these figures should be reported in accordance with the GAAP specified at the top of the table. These figures should be consistent with those in the operating assumptions tab. If there is a difference this needs to be explained.

4.43. **Other comprehensive income:** licensees should report here any items which are to be recognised directly in equity. If there are items which the licensee needs to recognise directly in equity and for which there is currently no heading, then the licensee should contact Ofgem.

4.44. **Exceptional items:** All exceptional items should be included in the results shown in the statement of comprehensive income and explicitly identified in the memo item rows (rows 69 – 73). The description of each exceptional item should make it clear which element of profit and loss is being adjusted and the reason for the adjustment. The description should also clearly justify why the item is exceptional.

4.45. **Fair value gains and losses:** where the licensee has designated its swap arrangements as cash flow hedges and is consequently revaluing swaps to fair value and putting the revaluation through the income statement the revaluations associated with each swap should be shown in rows 76 – 81. Any other fair value gains or losses should be described in sufficient detail to justify why the item is a fair value gain or loss using the input cells provided.

Sheet 15. Statement of financial position

If there are items which the licensee needs to report in the statement of financial position which do not currently have row headings, then the licensee is to discuss the matter with Ofgem.

All items in the statement of financial position are to be reported in accordance with the GAAP shown at the top of the sheet.

4.46. **Cash reserve accounts:** These are memo items only and therefore do not form part of the statement of financial position – the statement of financial position should include all assets and liabilities and balance in its own right. The purpose of reporting this information here is twofold:

- i. to corroborate the reporting of financial ratios
- ii. to monitor licensee's financial position relative to the financial model submitted as part of the original bid.

Therefore, the balances on these accounts should be as reported for bank covenant reporting and should only include the balances on the properly ring-fenced reserve accounts. The figure reported in row 93 should be the total cash held by the licensee outside of reserve accounts. Hence the total of rows 84 to 92 should agree to the figure shown in row 31 (cash and cash equivalents).

Sheet 16. Cash flow statement

If there are items which the licensee needs to report in the cash flow statement which do not currently have row headings, then the licensee is to discuss the matter with Ofgem.

All items in the statement of financial position are to be reported in accordance with the GAAP shown at the top of the sheet.

Sheet 17. Financial ratios

The purpose of this tab is to provide a summary of the licensee's financial position and compare this with the funder's covenants.

All data for past periods should be actual data. The return should also be completed for future periods based on forecast data.

These RIGs focus only on the cells where the licensee's input is required.

4.47. **Covenants:** The licensee should record the minimum Annual Debt Service Cover Ratio (**ADSCR**) and minimum Loan Life Cover Ratio (**LLCR**) specified by the lenders in the credit agreement(s). The figure reported should be the strictest (if different lenders have offered different terms) for the least severe situation (e.g., if distribution lock-up occurs at 1.15x and default occurs at 1.10x then 1.15x is the figure to be reported).

In situations where lenders have specified financial ratios as covenants as well as or instead of ADSCR and LLCR then these financial ratios are to be specified. These other covenants should be specified in rows 21 and 22 and the licensee's performance on these ratios should be specified in rows 26 and 27 respectively.

In situations where the licensee reports its ratios to debt providers on a consolidated basis (for instance where finance is provided other than directly to the licensee) then the ratios reported here should similarly be those consolidated ratios. The fact that the ratios are based on a consolidated position should also be noted and briefly described in a commentary to be provided alongside the reporting pack.

4.48. **Ratios:** These should be the ratios as reported to the licensee's funders. The actual ratios may be directly input (i.e., without supporting calculation) though the methodology used to calculate the ratio should be described in the relevant box below (see rows 35 to 44 of the reporting template).

4.49. **Transfer value and subsequent capex:** The licensee should include the transfer value and any subsequent capital expenditure or disposals. The transfer value reported should be the final ex-post transfer value as agreed with the Authority.

Sheet 18. Reconciliation of internally consistent figures

No data needs to be entered by the licensee into this sheet. The licensee should still review the reconciliation tab to ensure that all data have been properly reconciled prior to submission to the Authority. Accordingly, the reviewer details cell is still provided on the left of the sheet along with a check box to be completed as an indication that the sheet has been reviewed.

In situations where one of the checks reveals an internal inconsistency the matter should be explained in a short commentary to be submitted along with the reporting pack. These situations are only expected to arise in situations which were not foreseen at the time the reporting packs were constructed. Furthermore, the licensee should discuss any such matters with Ofgem so that the reporting pack can be amended for the subsequent year's reporting to avoid any more internal inconsistencies.

Sheet 19. Reconciliation to statutory accounts

To provide comfort that the figures reported in the cost return are consistent with those reported in the statutory accounts the licensee will have to declare in each cost return how much of each of the reported profit and loss figures is attributable to the most recent statutory accounts and how much will be attributable to the next period's statutory accounts. The diagram below shows an example:

	2011												2012														
	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
Revenue (£m):	Stats #1												Stats #2														
	4					9							5					7							3		
Revenue (£m):	Regs #1			Regs #2									Regs #3														
	4																										
Revenue (£m):	Cost return #1			Cost return #2									Cost return #3														
	Previous: 0												Previous: 7														
Revenue (£m):	Subsequent: 4												Subsequent: 5												Subsequent: 3		

In the example above the first cost return is provided in July 2011 and covers the period 1/1/11 – 31/3/11. All costs and revenues in that return should be reported as being attributable to a subsequent accounting period (column F in the return) since no statutory accounts had been drawn up prior to 31 March 2011. When the second cost return is submitted the 'Previous' figure (column E in the return) should be the balancing figure required to agree with the total figure submitted in the first set of statutory accounts.

This process requires licensees to make an estimate of how their revenue and costs are split across the year since the statutory accounts and Ofgem accepts that the split may not be precise since month end cut-off procedures are rarely as rigorous as year-end ones. Nonetheless licensees should be able to make a reliable estimate based on the monthly accounts and the results should give the Authority comfort that the figures reported are broadly in line with those which are subject to statutory audit.

4.50. Attributable to last statutory accounts: As described above this will be the balancing figure required to ensure that the current return's previous figure plus the previous period's subsequent figure total to the figure reported in the statutory accounts.

4.51. Attributable to the statutory accounts for the year to [next accounting period]: As described in the above example, these figures will be management's best estimate of the amount of costs and revenues reported in the cost return which are attributable to a set of statutory accounts which have not yet been prepared.

4.52. Total items included in cost return but not in statutory accounts: This column is to be used for recording the total value of reconciling items of this sort. Note that the reconciling items should not be the result of timing differences since the structure of the reconciliation captures the appropriate costs and revenues for the period. Any reconciling totals must be supported by a breakdown of individual items where each item is properly explained. The Authority may ask for documentary support of reconciling items. This data should be reported in nominal terms.

4.53. Total items included in statutory accounts but not in cost return: This column is to be used for recording the total value of reconciling items of this sort. Note that the reconciling items should not be the result of timing differences since the structure of the reconciliation captures the appropriate costs and revenues for the period. Any reconciling totals must be supported by a breakdown of individual items where each item is properly explained. Ofgem may ask for documentary support of reconciling items. This data should be reported in nominal terms.

5. Specified information – sulphur hexafluoride reporting

- 5.1. The purpose of Sulphur Hexafluoride reporting is to secure the collection of specified information to enable the Authority to effectively establish the quantity of sulphur hexafluoride contained in the Licensee's transmission system, and the emissions thereof by the Licensee, in the relevant year.
- 5.2. This information is to be provided as part of Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting), and an additional reporting requirement for licences granted for TR3 projects onwards.
- 5.3. The information required is described below:
- 5.4. **SF₆:** Is the chemical symbol for Sulphur hexafluoride, a gas that is used as both an insulating and arc extinction medium in electrical plant. The reporting requirement in respect of fugitive Business Carbon Footprint (BCF) emissions attributed to SF₆ lost from electrical plant.
- 5.5. **SF₆ Bank:** This is the total kilograms of sulphur hexafluoride (in kg) held by the OFTO, both for assets installed on the network and those held in inventory. Each OFTO's SF₆ bank should be calculated according to the methods set out in ENA Engineering Recommendation S38.
- 5.6. **SF₆ Emitted:** This is the total kilograms of sulphur hexafluoride emitted during asset installation (only if gassed by the OFTO), service life and decommissioning. Service life emissions include those due to leakage (measured through top-ups); those measured during service activity requiring gassing and degassing; and those due to equipment failure resulting in the loss of all gas contained by the asset. The SF₆ emitted value should account for gas recovered.

6. Specified information – equity transaction reporting

6.1. The Authority has modified all electricity transmission licences by adding a new amended standard condition, E12 – D2 (Equity Transaction Reporting), to:

- increase transparency of equity transactions following licence grant, and
- provide the Authority with information on the appetite in the secondary equity market for investment in OFTOs.

6.2. The template designed for this purpose, requires details to be completed such as:

- the date of the transaction(s),
- the value of the transaction(s),
- where applicable, the number of shares the licensee transferred, issued or bought back and the percentage of the total shares of the licensee this represents; and
- where applicable, the percentage of the licensee now owned by the new ultimate controller(s).

6.3. This reporting requirement is relevant to all OFTOs.

7. Reporting arrangements

Revenue -, cost -, and sulphur hexafluoride reporting

7.1. It is important that a clear set of arrangements are in place for reporting accurately and on a consistent basis. This section details the procedures for reporting on revenue, costs and sulphur hexafluoride emissions in accordance with Amended Standard Conditions E12 – D1.

Provision of an allowed revenue model

7.2. For the purposes of providing information to the Authority, Ofgem provides the allowed revenue model which covers the reporting of OFTO revenues. The model operates based on a series of inputs fed into the spreadsheet, which in turn generate allowed revenue in the calculation pages based on the formulae given in the Amended Standard Conditions E12 – J1 to E12 – J4.

7.3. The output pages extract data from the model to produce the revenue return reports. The input pages are the Audited Revenue Returns and Forecast Revenue Returns. These reports represent templates referred to by paragraph 7 of Amended Standard Condition E12 – D1.

Audit requirements – revenue reporting

7.4. Paragraph 11 of Amended Standard Condition E12 – D1 requires the information relating to paragraph 7 (a) to be accompanied by an auditor's report. Furthermore, paragraph 12 of Amended Standard Condition E12 – D1 requires that the report from the auditors be accompanied by a letter detailing the procedures they have followed in reaching their reported opinion. Both documents are required to be provided to the Authority in hard copy in conjunction with an electronic copy of the revenue and incentive reporting pack.

7.5. Agreed upon procedures will be issued by Ofgem to specify the procedures auditors must follow in the production of their audit report.

7.6. For the purposes of paragraph 11 of Amended Standard Condition E12 – D1 the following sections of the Audited Revenue Return should be audited:

- 1. Inputs
- 3a. Excluded and de minimis revenue
- 3b. Total revenue (including excluded services)
- 3c. Reconciliation between OFTO's total revenue and allowed revenue ($OFTO_t$)

Audit requirements – cost reporting

7.7. Amended Standard Condition E12 – D1 makes certain references to audit requirements. The RIGs do not require an audit report to be submitted pursuant to this condition, although the Authority may modify the RIGs³. Such change may extend to introducing an audit requirement for some or all of the cost reporting where this is considered necessary by the Authority.

Documents to submit

7.8. The below table sets out the revenue and incentive reporting requirements under Amended Standard Condition E12 – D1. The documents to submit are referenced in the below table; electronic copies of the worksheets should be submitted. Blank copies of these worksheets are provided along with this document. Given that all the reporting is contained in the same Excel workbook we expect licensees will find it easier to submit the whole workbook to cover off all the reporting due on 31 July with separate reporting for 1 April. Reporting in this way is encouraged.

Reporting	Return	Licence reference
Revenue	Audited Revenue Return	E12 - D1 para. 7(a)
Revenue	Forecast Revenue Return	E12 - D1 para. 7(f)
Incentives	Availability Incentive Reporting	E12 - D1 para. 7(c)
Incentives	Incremental Capacity Incentive Reporting	E12 - D1 para. 7(d)

7.9. In addition, in respect of Amended Standard Condition E12 – D1 paragraph 7(a) (audited revenue reporting) the licensee must submit the following:

- A report from the licensee's auditor setting out the findings of their agreed upon procedures (this will constitute the 'auditor's report' referred to in the Licence).
- A hard copy of the revenue returns initialled by the licensee's auditors on each page to indicate that the version submitted is the same as the version on which the auditors prepared their work.

³ Modifications would be made as described in Part E of Amended Standard Condition E12 – D1 (Offshore Regulatory Reporting)

7.10. As part of the cost reporting each licensee must submit the following cost reporting pack in respect of Amended Standard Condition E12 – D1 paragraph 7(b):

- The completed cost reporting templates in electronic format (to be submitted via email).
- Where relevant⁴, a report from the licensee's auditor setting out the findings of their agreed upon procedures (this will constitute the "auditor's report" referred to in the Licence).
- Where relevant⁵, a hard copy of the cost return initialled by the licensee's auditors on each page to indicate that the version submitted is the same as the version on which the auditors prepared their work.

N.B. Audit reporting is not required for the cost reporting under the RIGs but may be required as described above in paragraph 7.7.

7.11. Pursuant to paragraph 7(e) of Amended Standard Condition E12 – D1, the licensee must provide details of the sulphur hexafluoride (SF₆) emissions associated with its transmission business. A sheet is provided within the reporting template which enables the licensee to submit the information electronically.

Submission dates

7.12. As required by Amended Standard Condition E12 – D1 paragraph 7 this return should be submitted to the Authority by no later than 31 July of each relevant year.

7.13. Submission dates are as follows:

Reporting	Return	Licence reference	Submission date
Revenue	Audited	E12 - D1 para. 7(a)	31 July
Revenue	Forecast	E12 - D1 para. 7(f)	1 April
Incentives	Availability	E12 - D1 para. 7(c)	31 July
Incentives	Incremental capacity	E12 - D1 para. 7(d)	31 July

7.14. Items due by 31 July are to cover the preceding regulatory year. For example, the audited revenue returns for the year to 31 March 2021 should be submitted by 31 July 2021.

Submission process

7.15. The documents listed under point 5.2 and 5.4 above should all be uploaded to the e-Tendering portal platform (hosted by BravoSolution) and an email notification sent to offshore.reporting@ofgem.gov.uk and ilona.groenewald@ofgem.gov.uk.

⁴ As noted in paragraph 7.7 such an audit report is not currently required

⁵ As noted in paragraph 7.7 such an audit report is not currently required

8. Additional guidance for reporting on templates

- 8.1. Unless otherwise stated in the cost reporting templates data should be reported to the following level of precision:

For £m amounts to 3 decimal places

For percentages to 2 decimal places

For MW amounts to 1 decimal place

For kVA amounts to no decimal places

- 8.2. The 'Cover' tab shows the key to the colour coding used in the cost reporting templates. Licensees should only enter data into yellow-coloured cells. Where a licensee believes the cost reporting template needs to be amended to accommodate their reporting requirements this is to be raised with the Authority.

- 8.3. All data are to be reported in nominal prices unless otherwise stated.

- 8.4. **Input Pages** – This covers general inputs across the OFTO allowed revenues as well as information relating to pass through items, availability incentive and other specific terms. For all other inputs, the licensee should enter data into the yellow shaded areas.

- 8.5. **The forecast return** – This provides a high-level summary of the allowed revenues of the associated Offshore Transmission Owner activities. In the issued version of the templates the input cells for the forecast year contain lookups to extract the data from the calculations. If the licensee prefers, they can enter their forecast directly into tab 7.

- 8.6. Note that the forecast return is due for submission on 1 April of each year. The forecast in question is the early impression of the results for the year just ended.

9. Glossary

A

ADSCR

Annual debt service cover ratio

Authority

The Gas and Electricity Markets Authority

C

Capex

Capital expenditure - amounts which a company spends on assets which are expected to be used over several years.

CT600

CT600 is the reference number for the corporation tax return which companies in the UK must complete and submit to HMRC.

G

GAAP

Generally accepted accounting principles - this is the generic name for a set of accounting rules. There are various national GAAPs (including UK GAAP) as well as the international standards (IFRS).

H

HoldCo

A name used to refer to the holding company of the licensee - i.e., the licensee's immediate parent company if that company has no other activities.

HMRC

Her Majesty's Revenue and Customs - the tax authorities in the UK.

I

IFRS

International Financial Reporting Standards

L

Licence

Offshore electricity transmission licence

LIBOR

London Interbank Offered Rate

LLCR

Loan life cover ratio

O

O&M

Operations and maintenance

Ofgem

Office of Gas and Electricity Markets

OFTO

Offshore transmission owner

S

SPV

Special purpose vehicle - a company, or other legal entity, set up specifically for carrying out a single activity.

SF₆

The chemical symbol for Sulphur hexafluoride, a gas that is used as both an insulating and arc extinction medium in electrical plant.

R

RIGs

Offshore transmission owner regulatory instructions and guidance

T

TRS

Tender revenue stream

TR1 / TR2 / TR3 / TR4 / TR5 / TR6 / TR7 / TR8 / TR9

Tender Round 1 / 2 / 3 / 4 / 5 / 6 / 7 / 8 / 9