

# RIO-T1 and GD1: Draft Regulatory Instructions and Guidance

## Consultation

<b>Reference:</b>	139/12
<b>Publication date:</b>	30 October 2012
<b>Response deadline:</b>	14 December 2012

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### Overview:

This document sets out draft Regulatory Instructions and Guidance (RIGs) for the next gas and electricity transmission price control period (referred to as RIO-T1) and the next gas distribution price control (RIO-GD1). The RIGs is the principal means by which we collect data from Network Owners (NWOs) in order to monitor NWOs performance against their price control objectives and hold them to account.

This is the first transmission price control to reflect the new RIO (Revenue = Incentives + Innovation + Outputs) model.

# Associated documents

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## **Supporting Documents**

[RIIO-T1 Electricity Transmission Price Control - Regulatory Instructions and Guidance: Version 1](#)

[RIIO-T1 Gas Transmission Price Control - Regulatory Instructions and Guidance: Version 1](#)

[RIIO-T1 Gas Distribution Price Control - Regulatory Instructions and Guidance - Version 1](#)

[RIIO-T1 RIGs Electricity Transmission Reporting Template](#)

[RIIO-T1 RIGs Gas Transmission Reporting Template](#)

[RIIO-GD1 RIGs Gas Distribution Reporting Template](#)

[RIGs Example Commentary](#)

[Gas Distribution Business Plan Data Tables](#)

[Gas Distribution Business Plan Table Guidelines](#)

## **Related consultations**

TBC

[RIIO-T1 and GD1 Second licence draft consultation](#)

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# Executive Summary

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## Background

Britain's gas and electricity network companies face unprecedented challenges. They will need to invest over £30 billion over the next decade to develop smarter networks, to meet environmental challenges and to secure energy supplies. Against this backdrop, it is more important than ever that network companies can show consumers they are getting value for money.

RIIO-T1 and GD1 will be the first price controls to be conducted under our new RIIO model. Through RIIO-T1 and GD1, we are setting the regulatory framework to apply to Electricity and Gas Transmission (ET and GT) and Gas Distribution (GD) companies from 1 April 2013 to 31 March 2021.

The objective of RIIO is to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers.

We have already published our Final Proposals (FP) Documents for SPTL and SHETL.<sup>1</sup> We have also published our Initial Proposals (IP) Documents for National Grid Electricity Transmission (NGET) and National Grid Gas Transmission (NGGT) with respect to RIIO-T1 and separately, our IP Documents for the Gas Distribution Networks (GDNs) with respect to RIIO-GD1.<sup>2</sup>

## Developing a comprehensive reporting framework

The Regulatory Instructions and Guidance (RIGs) is the principal means by which we collect data from Network Owners (NWOs) in order to monitor NWOs performance against their price control objectives and hold them to account.

The intention of this informal consultation is to provide NWOs and other stakeholders with the broad structure and content of information that we expect to collect through the RIGs for the next price controls, RIIO-T1/GD1. This consultation sets out the principal issues and questions where we are seeking stakeholders' views to help us develop a robust reporting framework. These comprise:

- the timetable and process for developing the RIGs for RIIO-T1 and GD1
- our intention to undertake a wider review of information requirements
- the publication of RIGs to help network users
- the principles we intend to use to determine the scope of data reporting.

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<sup>1</sup>

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=190&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<sup>2</sup><http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=214&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=376&refer=Networks/GasDistr/RIIO-GD1/ConRes>

As well as consulting on high-level issues, we are also publishing draft RIGs documents as well as data templates. We are seeking stakeholders' initial views on the precise data that we require them to report. We intend to develop and finalise the RIGs working with the industry early in 2013, and introduce the new reporting framework for the start of the next price control periods in April 2013.

As part of our second informal licence consultation, published alongside this document, we are publishing a draft RIGs licence condition which governs the scope of the reporting framework.

# 1. Structure of Document

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## Chapter Summary

This chapter sets out the overall structure of this overview document and the list of supporting documents.

## Overview document

1.1. This overview document sets out the purpose of the RIGs consultation, and the high level issues in relation to the development of the RIGs for RIIO-T1 and GD1. The high-level issues where we are seeking stakeholders' views (as set out in section 2) comprise the:

- timeline for the development of RIGs
- wider review of information requirements
- structure of RIGs documents
- publication of RIGs
- principles governing data included in RIGs
- RIGs audit requirements.

1.2. We are also publishing draft RIGs for each of electricity and gas transmission, and gas distribution, as well as draft templates. The draft RIGs and data templates are set out as supporting documents. We describe each supporting document in the section below. The supporting documents include specific questions for stakeholders in relation to the data that we intend to collect as part of the respective gas and electricity transmission, and gas distribution RIGs.

1.3. The deadline for responses to this overview document and the supporting documents, ie the questions set out in this overview document and in the associated guidance and data tables, is **14 December 2012**.

1.4. Alongside this consultation, we are also publishing our second informal licence consultation including a revised RIGs licence condition.<sup>3</sup> The deadline for responses to licence consultation including RIGs condition is **30 November 2012** in order for us to reflect respondents' views in December statutory consultation.

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<sup>3</sup> RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance  
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/RIIOT1andGD1draftRIGS.pdf>

## Supporting documents

1.5. We are publishing draft RIGs for electricity transmission, gas transmission, and gas distribution licensees respectively. The documents describe in detail how individual tables should be completed and the associated information required by us. Document titles:

1. RIIO-T1 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 1
2. RIIO-T1 Gas Transmission Price Control – Regulatory Instructions and Guidance: Version 1
3. RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 1

1.6. We are also publishing draft reporting templates for each sector setting out the initial set of tables that we expect each licensee to complete on an annual basis. We are publishing templates for each sector as follows:

4. RIGs Electricity Transmission Reporting Template
5. RIGs Gas Transmission Reporting Template
6. RIGs Gas Distribution Reporting Template

1.7. We are also publishing the following document which provides an example template for commentaries against the data in the reporting tables. We intend to develop similar commentary documents for gas distribution and transmission:

7. RIGs Example Commentary

1.8. Finally, we are also publishing business plan data tables and guidelines for RIIO-GD1. We are publishing these documents as they constitute the basis for the draft RIGs and templates for RIIO-GD1 set out above. The supporting documents are titled:

8. Gas Distribution Business Plan data Tables
9. Gas Distribution Business Plan Table Guidelines

## 2. Regulatory Reporting Instruction and Guidance (RIGs)

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### Chapter Summary

This section explains the purpose of this consultation, and set out the high level issues in relation to the development of RIGs where we are seeking stakeholders' views.

**Question 1:** Do respondents agree with our proposed approach/timetable for wider review of information reporting?

**Question 2:** Do respondents agree with the proposed structure of the RIGs documents?

**Question 3:** We would welcome specific comments on individual tables within the reporting templates.

**Question 4:** We would welcome respondents' views on the data that we should require NWOs to publish to help network users, investors, and other stakeholders.

**Question 5:** We welcome respondents' views on the overall the principles governing inclusion of data in the RIGs.

**Question 6:** We would welcome respondents' views on how we should classify data as part of development work in 2013. We would also welcome respondents' initial views on the scope of forecast data.

### Purpose of the RIGs consultation

2.1. The intention of this informal consultation is to provide NWOs with the broad structure and content of information that we propose to collect through the RIGs during RIIO-T1/GD1. This will help NWOs understand the intent of the proposed RIGs licence condition and the potential scope and requirements of the proposed RIGs themselves.

2.2. The draft RIGs included as part of this consultation represent the starting point for discussions with stakeholders. We acknowledge that we will need to undertake substantial work with industry before the RIGs can be finalised for RIIO-GD1/T1.

2.3. This chapter sets out the principal consultation questions for the RIGs, eg in relation to overall structure, content etc. We also set out more detailed questions in the draft RIGs documents.

2.4. This overview chapter invites stakeholders' views on the following issues:

- Timeline for the development of the RIGs
- Wider review of information requirements
- Structure of the RIGs documents

- Publication of the RIGs
- Principles governing data included in the RIGs
- RIGs audit requirements.

## Timetable for developing the RIGs

2.5. We do not intend to publish final RIGs along with licence statutory consultation in December 2012. Rather, we intend to develop final RIGs with industry in early 2013 and consult on the developed drafting, with the intention of introducing the RIGs prior to the start of the new price control on 1 April 2013.<sup>4</sup> We will feed respondents' views on this consultation into this development and consultation process. We set out how we intend to work with NWOs to develop RIGs in Table 1 below.

**Table 1: Milestones for RIGs development**

Date	Milestone
30 October 2012	Second informal draft licence consultation and associated documents published
14 December 2012	Consultation on associated documents/RIGs documents closes
January 2013	Establish formal industry working groups to develop RIGs. We propose three groups to examine: outputs; costs; and finance/revenues
February 2013	Initial review of reporting requirements set out in licence completed
February/March 2013	Consider implications for RIGs of proposed change to licence reporting requirements
March 2013	RIGs consultation/ notification reflecting output of RIGs WG and expected changes to licence conditions with reporting requirements
March 2014	RIGs consultation/notification reflecting statutory consultation on licence changes in relation to reporting requirements

## Wider review of information requirements

2.6. As set out in our July consultation, reporting requirements for the energy network companies are currently set out in a number of different licence conditions. Under our proposed revisions to the reporting licence conditions, the information needed to do this will be addressed through the new licence condition [ETC-/GTC/GDC74]:Regulatory Instructions and Guidance ('the RIGs Licence Condition'). However, in response to our consultation a number of stakeholders have asked us to undertake a wider review of the information and reporting requirements placed on NWOs, since we have not identified all the licence conditions that currently involve

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<sup>4</sup> Under the proposed draft licence conditions, the introduction of RIGs will be subject to the consultation and notification process set out in draft Standard Special Condition A40, Regulatory Instructions and Guidance Section C.

reporting requirements. We agree that this work is required and propose to undertake it in parallel with developing the RIGs with stakeholders early 2013.

2.7. As part of the review of wider information requirements, we will also confirm which reports are being replaced by the RIGs eg Revenue Reporting, Cost Reporting, Quality of Service, Connections Industry Review.

2.8. Our main objective for the wider review of reporting requirements is to ensure that we have a comprehensive and consistent set of price control reporting requirements. In other words, we are seeking to ensure consistency between the RIGs and any residual reporting requirements set out in the licence.

### **Proposed structure of RIGs documents**

2.9. As set out in our July consultation, we propose that the RIGs comprise four main elements:

- templates for reporting the data (in MS Excel v.2007 or newer)
- templates containing the calculation of the revenue elements – revenue reporting (including performance against incentives) (in MS Excel v.2007 or newer)
- templates for providing commentaries against the data (in MS Word)
- instructions and guidance on how to report the data (in MS Word).

2.10. We will look to minimise the number of RIGs documents – ideally having a single set for each of electricity transmission, gas transmission and gas distribution. However, it is possible that data handling and organisation may be more efficient if we have multiple documents. We intend to ensure common approach where feasible, eg in relation to common outputs, financial reporting.

### **Publication of RIGs/ reporting information**

2.11. A key objective of the new price control framework is to enable a wider set of information on NWOs' cost and output performance to be made available than under previous controls. In our recent decision on Charging Volatility Arising from Price Control

Review<sup>5</sup> we also concluded that we need to make available improved information to network users to improve the predictability of network charge changes, to help minimise any network related risk premium included in customers' bills.

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<sup>5</sup> Ofgem (October 2012) Decision on measures to mitigate charging volatility arising from the price control settlement. Link:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=404&refer=Networks/Policy>

2.12. Our preliminary view is that we should publish the completed NWO templates (with the exception of confidential financial data) each year to promote transparency in relation to NWOs' costs and performance. However, we note that most of the information network users require (at least in respect to improving the predictability of network charge changes) will comprise a sub-set of the RIGs data, ie those data that feed into the principal formula.

2.13. If respondents consider that we should publish a sub-set of data, we will consider developing a summary template as part of RIGs development early 2013.

## **Principles governing data included in RIGs**

2.14. We are consulting on high level principles to guide the development of the RIGs that we will undertake in early 2013.

2.15. As part of monitoring NWOs' performance over the RIIO period we intend to publish an annual cost and performance report. We expect the report will follow the structure of the recent report on the performance of the distribution network owners (DNOs).<sup>6</sup>

2.16. We also propose to use the RIGs to collect information that we require to undertake benchmarking at subsequent review periods.

2.17. We propose that the principles that should guide the data included in the RIGs should include:

- Data contributes to one of the objectives of RIGs:
  - necessary to administer price control licence conditions and Final Proposals
  - informs expected annual cost and performance reports
  - used at price review, eg as part of benchmarking analysis.
- Proportionate, ie that the requirements do not exceed what is reasonably required to achieve the RIGs objectives, having regard to the materiality of the costs likely to be incurred by the licensee is complying with the requirements.
- Where reasonable, data reporting requirements should align/ draw on from standard business and legislative reporting practices to avoid creating additional or bespoke systems and processes.

2.18. We have based our draft RIGs set out in this consultation on the business plan data templates (BPDT) that we required NWOs to complete as part of the submission

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<sup>6</sup> The Electricity Distribution Annual Report for 2010/11 can be found at [http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrl/DPCR5/Documents1/Electricity\\_Distribution\\_Annual\\_Report\\_for\\_2010\\_11.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrl/DPCR5/Documents1/Electricity_Distribution_Annual_Report_for_2010_11.pdf)

of their RIIO business plans. We have compared this to the previous price control RIGs and RRP. We have undertaken a preliminary review of the data included in the BPDT, and amended or deleted existing tables and added new tables. For example, we have included data in relation to the new output measures, such as the broad measure of customer satisfaction. In the data tables, we have also included specific questions in the RIGs for respondents' views.

2.19. In order to ensure that RIGs data are proportionate, ie the reporting does not impose a cost disproportionate to expected use and/or their associated benefit, we are proposing to classify the data (working with the companies in the context of working groups). For example, we propose the following classification for respondents' views:

- **Category A** – Very important information in relation to the intended purposes of RIGs, eg we would not be able to administer price control conditions without such information
- **Category B** – Important information
- **Category C** – Moderately important
- **Category D** – Not important, eg of marginal or no value in relation to the objectives of RIGs

2.20. In this example, we propose that the RIGs would only include data classified from A to C, and we would exclude all data classified as Category D.

2.21. One particular issue that we need to address is the provision of forecast data. This is a material issue as the inclusion of forecast data multiplies data reporting requirements. Our current view is that we should require NWOs to submit forecast data in relation to high level capital expenditure and opex categories, plus financial resources forecasts. The purpose of the forecast data will be to inform our annual cost and performance review, eg to help explain under/over-spend, as well as to understand NWOs financial performance.

2.22. We will consider requirement for NWOs to provide forecast data against the principles in early 2013 as part of the working groups.

## Audit requirements

2.23. Prior to 1 April 2015, we intend to continue with current RIGs audit requirements.

2.24. We will review the audit requirements associated with the RIGs as part of the development of the DAG. If necessary, we will revise the audit requirements associated with the RIGs at the time of introducing the new data assurance arrangements, which we expect to introduce for 1 April 2015.

# Appendices

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## Appendix 1 - Consultation Response and Questions

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1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from the NWOs.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by **14 December 2012** and should be sent to:

[RIIO.T1@Ofgem.gov.uk](mailto:RIIO.T1@Ofgem.gov.uk)

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: We set out how we intend to develop and finalise RIGs in section 2 of this document. Any questions on this document should, in the first instance, be directed to:

Martin Rodgers  
Head of Network Business Services  
9 Millbank, London, SW1P 3GE  
0207 901 7273  
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### **CHAPTER: Two**

**Question 1:** Do respondents' agree with our proposed approach/timetable for wider review of information reporting?

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## Appendix 2 - Feedback Questionnaire

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1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

**Andrew MacFaul**  
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