



Making a positive difference
for energy consumers

To: Electricity Transmission
Network Operators; interested
stakeholders

Email: anthony.mungall@ofgem.gov.uk
Date: 19 February 2018

Dear Company Secretaries and stakeholders,

Proposal to make modifications to the Regulatory Instructions and Guidance

We propose to make changes to the Electricity Transmission Regulatory Instructions and Guidance (RIGs). Please find enclosed a Notice, issued pursuant to paragraph 10 of Part C of Standard Licence Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence, regarding our proposed changes.

If we implement these changes, they will take effect in April 2018¹. For the avoidance of doubt, this means that the data submitted in July 2018 (in respect of the 2017/18 reporting year) would comply with the RIGs as modified.

In addition to the proposed modifications detailed in the Notice attached to this letter, we set out below developments in relation to two areas of additional information that were identified in parallel to the proposed changes to the RIGs last year (2016-17), and we provide an update on changes to the supporting commentary to supplement the annual Regulatory Reporting Packs (RRPs).

Reconciliation table

In 2015-16 we developed a generic excel workbook template requiring the submission of information from the Licensees entitled 'RIIO-T1 Scheme-Output-Referencing Workbook' (SORW). The purpose of the SORW template was to facilitate a better understanding of the changes in the Licensees' actual and forecast investment from the original RIIO-ET1 Business Plan on which we set the allowances.

Although intended as a 'one-off' submission of information, our engagement with the Licensees has established that the process of populating the template was more time consuming than originally envisaged, resulting in delayed SORW submissions in each of the previous reporting years. There have also been discussions to resolve presentational issues around the use of the descriptive term 'no output' in the SORW and in the RRP (i.e. output does not always solely mean those as defined in the licence or final proposals). These issues have restricted the usefulness of the SORW information in our analytical process to understand and explain how the Licensees adapt their work to the changing work demands from the original business plan submission.

¹ We propose to modify the RIGs in a direction on or after 30 March 2018.

Accordingly, it was agreed that the companies will resubmit the populated SORW template, updated where applicable. The Licensees have indicated their commitment to populate their individual SORW templates as robustly and as accurately as possible no later than 31 May 2018.

For the avoidance of doubt, the SORW is an offline workbook and is not part of the 2017-18 Costs and Outputs Regulatory Reporting pack.

Network Output Measures (NOMs)

We have been working closely with the Licensees to develop a revised methodology¹. A modified NOMs Methodology was submitted in April 2017 and came into effect on 27 May 2017². Further development work is currently ongoing with the electricity transmission licensees to ensure that the Methodology fully achieves the NOMs Objectives. Development of reporting requirements related to the NOMs is therefore still ongoing.

Strategic Performance Overview

In June 2017, we provided guidance for the pilot use of a Strategic Performance Overview (SPO) document to supplement network company's annual RRP's under the RIIO price controls. This guidance was applicable across all four energy sectors.

Despite some minor delays in the production of the final submission in the electricity transmission sector, the pilot has been successful in allowing the individual companies to distil the key messages of what they see as important indicators of expected performance over the RIIO-ET1 period. We believe that the SPO submission has improved both the efficiency and effectiveness of the annual reporting process.

We have maintained an open dialogue with the individual companies to progress refinements to the structure of the narrative so that it provides greater clarity regarding the drivers of performance. Having considered the relevant feedback, we are proposing to embed the requirements of the SPO process into the formal RIGs document and supporting narrative template for 2017/18. This will be used as the basis of supporting narrative for the remainder of the RIIO-ET1 price control.

The revised narrative structure, with a strong focus on the strategic context of the overall RIIO-T1 performance expected, will be used to evaluate the sustainability of current performance, consequences on future delivery and to assess value for money provided to customers over the price control. It will also enable network companies to provide an insight into future investment for a rolling 8-year period, which contains the balance of RIIO-ET1 and the early years of RIIO-ET2.

We welcome comments on our proposed modifications, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Steven McMahon
Associate Partner RIIO Networks, Electricity
19 February 2018

¹ Being developed by Licensees in accordance with Special Condition 2L of the electricity transmission licences.

² <https://www.ofgem.gov.uk/publications-and-updates/notice-intention-not-reject-modified-electricity-transmission-network-output-measures-noms-methodology>

To: National Grid Electricity Transmission plc ("NGET")

(Company Number: 02366977)

SP Transmission Limited ("SPTL")

(Company Number: SC189126)

Scottish Hydro Electric Transmission plc ("SHE Transmission")

(Company number: SC213461)

(the "Licensees")

Notice under paragraph 10 of Standard Licence Condition B15 (Regulatory Instructions and Guidance) ("SLC B15") of the Electricity Transmission Licence of proposed modifications to the Regulatory Instructions and Guidance

The Gas and Electricity Markets Authority (the "Authority"¹) hereby gives notice under paragraph 10 of SLC B15 as follows:

1. Each of the Licensees is the holder of an electricity transmission licence (the "licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SLC B15 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 Charge Restriction Conditions ("CRCs") of the licence and, where not referenced in the licence, the RIIO-ET1 Final Proposals².
3. SLC B15 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SLC B15, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed via the hyperlinks in Appendix 1 and Appendix 2 to this Notice.
4. The proposed modifications to the RIGs consist of new tables and revisions to existing tables. The purpose of the proposed modifications is to require the Licensees to provide more accurate, consistent and complete information to the Authority, such as to enhance the quality and the accuracy of the information available to the Authority.
5. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2018 in the following areas:
 - the Costs and Outputs ("C&O") Regulatory Reporting excel template
 - the guidance document supporting the C&O Regulatory Reporting template
 - the supporting narrative template for each Licensee to follow when submitting commentary to support the C&O RIGs return, and
 - the Revenue Regulatory Reporting excel template for each Licensee.
6. The main modifications are briefly summarised below. More detail is set out in Appendix 2. They are:

¹ 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.

² <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/Pages/RIIO-T1.aspx>

- a. Revisions to two of the existing tables related to summarising total expenditure and allowances. The tables will gather additional information to capture the variances between expenditure and opening allowances and the latest Annual Iteration Process. This data is fully auto-populated.
- b. The deletion of two tables in section three of the C&O Regulatory Reporting excel template. This section has been streamlined to remove tables that are no longer required as the data is provided elsewhere in the annual RIGs submission. The existing reporting pack table related to summarising volumetric data has also been removed from NGET for the above reason.
- c. The introduction of two new tables in the C&O Regulatory Reporting excel template, applicable to SPTL and SHE Transmission only, to gather information on opex related expenditure. These modifications formalise the reporting requirements that have been identified through the previous reporting period and provide increased auto-population across the reporting pack. Each new table is briefly summarised below.
 - i. Table 3.1: expenditure associated with elements of Direct Costs (Gross/Cap/Net). Removal of rows which relate to 'Related Party Margins Disallowed' which are now obsolete due to the changes to the pack that were undertaken in the previous regulatory years.
 - ii. Table 3.2: expenditure associated with elements of Indirect Costs (Gross/Cap/Net). This table assumes the numbering position in the reporting pack left vacant by the decision to remove the reporting requirement associated with providing a breakdown of activities associated with controllable costs¹.

NGET has asked to populate the original configuration of Table 3.1 and to delay the transition to the new proposed structure. NGET explains that its request is driven by concerns about its ability appropriately to mitigate the increased risks created by the transition from its established Cost Allocation Methodology process (aligned to the original configuration of tables in section 3) to a new structure before July 2018.

- d. Four tables in section three have had their layout expanded to reflect the future legal separation of the System Operator ("SO") Business activity. This will provide greater transparency on the split of expenditure information between the SO and Transmission Owner business activities of NGET.
- e. The addition of a new table in section four of the C&O Regulatory Reporting excel template to gather raw data on load related expenditure.
- f. Revisions to an existing table in section four related to summarising volumes and expenditure associated with replacement and refurbishment of tower steelwork contained in RIIO-ET1 Business Plan to clarify existing reporting requirements.
- g. Two tables in section five and two in section six have had their layout reorganised to reduce their complexity, to remove unnecessary duplication of data and to improve the level of auto-population.
- h. Revisions to three existing tables in section six of the C&O Regulatory Reporting excel template, applicable to NGET only, to change the focus of the information

¹ Entitled "3.2 Year on year movement in controllable costs" in previous year's RRP.

gathered from scheme-level to project-level delivery across the RIIO-ET1 price control. The data fields have been expanded to capture NGET's views on current annual forecast levels for the period beyond the RIIO-ET1 period.

- i. Removal of three tables in section six of the C&O Regulatory Reporting excel template. This section has been streamlined to remove tables that are not required to support the performance narrative and in line with our understanding that the relevant information is collated and can be provided at an earlier point in the reporting year. Our proposal is for each Licensee to submit the required data and relevant supporting commentary by 31 May each year. For example, the data submitted on 31 May 2018 will relate to annual reporting year 2017-18 and the Licensees are not required to repeat this information as part of the RIGs submission received on 31 July 2018.
- j. New text has been included in the guidance document to provide instructions for completion of the above tables and to clarify our expectations of the revised narrative structure. Refinements have been made to provide greater clarity to the Licensees regarding the requirements to provide strategic insights on the important drivers of performance, and materiality of these drivers, over the RIIO-ET1 period. We are also proposing to remove the requirement to provide supporting commentary in relation to tables 5.3 and 5.4¹ as part of the 2017-18 Costs and Outputs Regulatory Reporting pack. We invite views on whether a comparable level of description is currently available as part of an existing document or whether the commentary (and information) can be collated and provided at an earlier point in the reporting year (e.g. 31 May 2018).
- k. Revisions to existing tables in the Revenue Regulatory Reporting excel template to clarify existing reporting requirements and to reflect broader changes to NGET's licence. The relevant licence modifications and template revisions are briefly summarised below.
 - Revisions to Standard Condition C16 and Special Conditions 1A, 4C, 4D, 4E, 4F, 4G, 4H, and 4J to introduce the System Operator Incentive scheme. We have restructured tab R16 "SO External Rev" of the Revenue Reporting template to ensure compliance with the updated licence.
 - Removal of Special Condition 4K to remove NGET's ability to recover costs associated with the Supplemental Balancing Reserve and Demand Side Balancing Reserve. We have restructured tab R17 "SO Bal Services" of the Revenue Reporting template to ensure compliance with the updated licence.
- l. Clarification to the definition relating to the term "Fault repairs"

Further information

7. If we implement these changes, they will take effect in April 2018².
8. Appendix 1 to this Notice provides a link to the following documents, which show the proposed modifications as incorporated:

¹ Table 5.3 is entitled "Boundary transfers requirements", table 5.4 is entitled "Boundary transfers and capability development".

² We propose to modify the RIGs in a direction on or after 30 March 2018.

- (a) RIIO-ET1 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 5.1
 - (b) RIIO-ET1 Electricity Transmission Reporting Pack Templates (excel): Version 5.1
 - (c) RIIO-ET1 Electricity Transmission Commentary Template
 - (d) RIIO-ET1 Electricity Transmission Revenue Reporting Pack Template (for each Licensee)
10. Appendix 2 to this Notice provides a link to a Change Log, which details the various proposed modifications.
 11. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
 12. Any representations on the proposed modifications must be made on or before 19 March 2018 to Anthony Mungall at Ofgem, 3rd Floor, Commonwealth House, 32 Albion Street, Glasgow, G1 1LH, or by email to Anthony.Mungall@ofgem.gov.uk.
 13. All responses will normally be published on our website. However, if you do not wish your response to be made public then you should clearly mark your response as not for publication. We prefer to receive responses in an electronic form so that they can be published easily on our website.

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Steven McMahon, Associate Partner RIIO Networks, Electricity
Duly authorised on behalf of the Authority

19 February 2018

Appendix 1: Regulatory Instructions and Guidance incorporating proposed modifications

A copy of the proposed RIIO-ET1 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 5.1, proposed RIIO-ET1 Electricity Transmission Reporting Pack Templates: Version 5.1, proposed RIIO-ET1 Electricity Transmission Commentary Template and proposed Revenue Reporting Pack Template for each Licensee can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/notice-proposing-modifications-regulatory-instructions-and-guidance-rigs-riio-et1-version-51>

Appendix 2: Proposed modifications to the Regulatory Instructions and Guidance

A log of all proposed modifications can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/notice-proposing-modifications-regulatory-instructions-and-guidance-rigs-riio-et1-version-51>