

To: Electricity Transmission
Network Operators; interested
stakeholders

Email: anthony.mungall@ofgem.gov.uk
Date: 8 March 2019

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.

We propose that if we implement these changes, they will take effect in April 2019¹. For the avoidance of doubt, this means that the data submitted in July 2019 (in respect of the 2018/19 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 four areas of additional information, and we provide an update on changes to the supporting commentary to supplement the annual Regulatory Reporting Packs (RRPs).

Network Output Measures

The Network Output Measures (NOMs) are a set of indicators which enable us to quantify the impact of the actions taken and expenditure incurred by the onshore electricity transmission network owners (TOs) on their networks. The NOMs are designed to demonstrate that the TOs are targeting investment in the right areas to manage network risk effectively.

Electricity transmission licences require Great Britain's TOs to have a Network Output Measures methodology ("NOMs Methodology"). We have been working closely with the network companies to develop a revised NOMs Methodology. A modified NOMs Methodology was submitted in July 2018 and came into effect on 8 August 2018².

Further development work is currently ongoing with the electricity transmission licensees to ensure that the Methodology fully achieves the NOMs Objectives, as provided for in Special Condition 2L of the TOs' licences.

¹ We propose to modify the RIGs in a direction on or after 12 April 2019.

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

Development of reporting requirements related to the NOMs is still ongoing, as is work to restate (rebase) the targets in accordance with the new Methodology, and to finalise the methodology for implementing the incentive mechanism.³

Strategic Performance Overview

In June 2017, we provided guidance for the use of a Strategic Performance Overview (SPO) document to supplement network company's annual RRP's under the RIIO price controls. The pilot was 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. This led to the inclusion of the SPO narrative within the formal supporting commentary that accompanies the annual RRP submission. The structure was first used in the production of a combined narrative that accompanied the TO submissions for the 2017/18 reporting year.

We have maintained an open dialogue with the individual companies to progress refinements to the structure of the supporting commentary. Having considered the relevant feedback, we are proposing an amendment to the narrative template to enable network companies to include details of their approach to delivering whole system outcomes.

We believe that the refinements will further improve the efficiency and effectiveness of the annual reporting process. 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 RIIO-ET2 period.

Financial Reporting

In addition to these proposed changes, we set out in our 'RIIO Accounts way forward and alternative approach' letter⁴ in August 2018, that we would propose modifications to the RIGs to include the Regulatory Financial Performance Reporting (RFPR) requirement, which we consider would provide more targeted detailed financial information on licensees' RIIO performance. The RFPR is proposed as an additional annex in the RIGs⁵.

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

RIIO-ET2

The next price control (RIIO-ET2) will start in April 2021 and run for five years until March 2026.

In July 2018, we issued our decision on the RIIO-2 Framework. In this consultation, we provided more detail on how we propose to apply this framework in sectors that have their next price control starting in 2021⁶. This document set out initial high-level milestones for developing price controls for electricity transmission. Work has continued to further refine the high level programme of work and the milestones for calendar year 2019 are summarised in the table below.

³ For further information, please see our 'Decision on the Network Output Measures (NOMs) Incentive Methodology', 6 December 2018: <https://www.ofgem.gov.uk/publications-and-updates/decision-network-output-measures-noms-incentive-methodology>

⁴ https://www.ofgem.gov.uk/system/files/docs/2018/08/open_letter_riio_accounts_way_forward.pdf

⁵ <https://www.ofgem.gov.uk/publications-and-updates/regulatory-financial-performance-annex-riio-1-annual-reports-2017-18>

⁶ https://www.ofgem.gov.uk/system/files/docs/2019/01/riio-2_sector_methodology_0.pdf

Table 1: High-level milestones

Indicative high-level milestones for RIIO-ET2	
May 2019	Sector specific methodology decision
July 2019	1 st draft Business Plan provided to RIIO-2 Consumer Challenge Group and Company User Groups/Consumer Engagement Groups
October 2019	2 nd draft Business Plan provided
December 2019	Companies' Business Plan formal submissions to Ofgem & RIIO-2 Consumer Challenge Group and Company User Group/Consumer Engagement reports on Business Plan to Ofgem

We have established a cost working group comprising the TOs and other stakeholders. This working group has to date been the main forum at which we have discussed our potential approach to cost assessment. The group have raised resource and administrative concerns regarding the ability to progress the development, assurance and submission of a RIIO-ET2 business plan and the annual RIIO-ET1 regulatory reporting pack (RRP) in parallel.

To mitigate these concerns, the TOs have reviewed the RRP data template to identify areas where it may be possible to temporarily reduce or suspend the data requirement within the forthcoming RRP submission.

Discussions have taken place with the key aim of ensuring that we are able to robustly monitor historical performance data and TOs' forward cost and output projections with confidence for the duration of the RIIO-ET1 price control. We believe that the temporary data reporting amendments set out below represent a pragmatic solution that will ensure the efficiency and effectiveness of the forthcoming RRP and the RIIO-ET2 business plan submission. This will enable licensees to release resource to prepare, review and assure the RIIO-ET2 submission.

Our initial proposals are summarised in the table below. Views are invited on our proposed approach in each area by 5 April 2019.

Table 2: Proposed data reporting amendments within the ET RRP pack

RRP reference	Comment
3.4 "Business support group"	We are minded to suspend population of the granular cost breakdown within each worksheet for the 2018/19 reporting year only. The cost categorisation currently captured in worksheet 3.1 "Opex summary" and 3.2 "Indirect summary" (where applicable) will endure and the requirement to populate data at the aggregated level remains unchanged.
3.6 "Business support supplement"	
3.7 "Operational training"	
3.8 "Salary & FTE numbers"	
3.9 "Exec & Demin"	For the avoidance of doubt, the requirement to identify and explain areas within the supporting commentary where there has been significant year-on-year change will remain unchanged. This may require further granular data to be provided through the formal Statutory Question (SQ) process.
5.10 "average circuit unreliability"	We are minded to suspend population of this worksheet for the 2018/19 reporting year only. As this looks at average position, we do not expect to use it directly in our short-term analysis. We reserve the right to request TOs to submit the data at a later date and expect them to notify us if 2018/19 ACU drops significantly below historical levels.

Yours faithfully,

Steven McMahon
Deputy Director, Network Price Controls
8 March 2019

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

(Company Number: 02366977)

SP Transmission Limited ("SPTL")

(Company Number: SC189126)

Scottish Hydro Electric Transmission plc ("SHET")

(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"⁷) 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 special conditions of the licence and, where not referenced in the licence, the RIIO-ET1 Final Proposals⁸.
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 2019 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,
 - the Revenue Regulatory Reporting excel template for each Licensee, and
 - the Regulatory Financial Performance Reporting excel template and supporting commentary.

⁷ 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.

⁸ <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/Pages/RIIO-T1.aspx>

6. The main proposed modifications are briefly summarised below. More detail is set out in Appendix 2. They are:
- a. We are proposing to remove the requirement to populate and provide supporting commentary in relation to tables 1.4 and 1.5 as part of the 2018/19 Costs and Outputs Regulatory Reporting Pack ("C&O RRP"). Under the proposed modifications, the information will be gathered through the new regulatory finance performance reporting ("RFPR") process, and will not be required to be re-submitted through the C&O RRP.
 - b. The requirement to populate worksheet 6.9 has been removed from the C&O RRP for SHET. This is to address issues identified with the current data selection and the subsequent validation process of the RRP.

Our proposal is to remove sheet 6.9 from the C&O RRP and to source the annual data from the "Volume Driver" workbook submitted by SHET; the responsibility for inserting the input data in the "UserInput" sheet of the "Volume Driver" workbook, and running the workbook will remain with SHET.

- c. New text has been included in the guidance document 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.
- d. Clarification to the definition relating to the term "Opex/IT Telecoms" and its application to the legally separate electricity transmission system operator (SO) business within National Grid (to be established by 1 April 2019). This is intended to remove ambiguity in relation to the treatment of Information Technology (IT) costs between the Closely Associated Indirects (CAI) category and Business Support (BS) category within the annual reporting pack. Changes are proposed to worksheets 3.1, 3.4 and 3.6 of the 2018/19 C&O RRP.
- e. Revisions to existing tables in the Revenue Regulatory Reporting excel template to reflect broader changes to NGET's licence. The relevant licence modifications and template revisions are briefly summarised below.
 - We have restructured tab R16 "SO External Rev" of the Revenue Reporting template to ensure compliance with the updated licence, including the removal of certain incentive mechanisms and the replacement of the previous cost-focused Incentive Mechanism, IncPayExt, with a qualitative mechanism.
- f. The introduction of the RFPR.
- g. Revisions to increase the level of auto-population of generation and demand data from worksheet 4.2 to the relevant worksheets in section 6 (applicable to NGET only).

Further information

7. We propose that if we implement these changes, they will take effect in April 2019⁹.
8. Appendix 1 to this Notice provides a link to the following documents, which show the proposed modifications as incorporated:

⁹ We propose to modify the RIGs in a direction on or after 12 April 2019.

- (a) RIIO-ET1 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 6.1
 - (b) RIIO-ET1 Electricity Transmission Reporting Pack Templates (excel): Version 6.1
 - (c) RIIO-ET1 Electricity Transmission Commentary Template
 - (d) RIIO-ET1 Electricity Transmission Revenue Reporting Pack Template (for each Licensee)
 - (e) RIIO Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance: Version 1.0
 - (f) RIIO Regulatory Financial Performance Reporting – Template: Version 1.0.
10. Appendix 2 to this Notice provides a link to a Change Log, which details the 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 Friday 5th April 2019 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, Deputy Director, Network Price Controls, Systems & Networks
Duly authorised on behalf of the Authority

8 March 2019

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 6.1, proposed RIIO-ET1 Electricity Transmission Reporting Pack Templates: Version 6.1, 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-61>

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-61>