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for energy consumers

To: See distribution list

Your Ref:  
Our Ref:  
Direct Dial: 0141 331 6010  
Email: anthony.mungall@ofgem.gov.uk

Date: 11 March 2016

Dear Company Secretaries,

**Notice under paragraph 10(a) of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") of the Electricity Transmission Licence granted to the Licensees under section 6(1)(b) of the Electricity Act 1989**

Please find attached notice of the above, which will also be published on our website.

Yours sincerely,

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Anthony Mungall  
**Senior Manager, Costs & Outputs**

Distribution list:

National Grid Electricity Transmission plc (Company Number: 02366977)

SP Transmission Limited (Company Number: SC189126)

Scottish Hydro Electric Transmission plc (Company number SC213461)

**To: National Grid Electricity Transmission plc**  
(Company Number: 02366977)

**SP Transmission Limited**  
(Company Number: SC189126)

**Scottish Hydro Electric Transmission plc**  
(Company number SC213461)

**(the "Licensees")**

**Notice under paragraph 10 of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") of the Electricity Transmission Licence granted to the Licensees under section 6(1)(b) of the Electricity Act 1989**

The Gas and Electricity Markets Authority (the "Authority"<sup>1</sup>) hereby gives notice under paragraph 10 of SC B15 as follows:

***Proposal to modify the Regulatory Instructions and Guidance***

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SC B15.
2. SC B15 came into effect on 1 April 2013, at the start of the RIIO-T1 price control period. The RIGs are the primary means by which the Authority directs the Licensees to collect and provide the information to the Authority to enable it to monitor performance by the Licensees, but also to administer the Special Conditions of the electricity transmission licence and, where not referenced in the licence, the RIIO-T1 Final Proposals<sup>2</sup>.
3. Following our analysis of the 2014-15 RIGs submission, it has become clear to us that we require further information from the Licensees to understand and explain how the Licensees adapt their work to the changing work demands from the original business plan submission, and to enable monitoring against the funding mechanisms as set out in the licence.
4. We have engaged with the Licensees to establish the changes that we consider necessary for us to have a sufficiently clear picture of their performance over time.
5. 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. The effect of the proposed modifications will be to enhance the information available to the Authority, thereby facilitating its duty of monitoring compliance with the RIIO-T1 Final Proposals.
6. The main modifications are briefly summarised below. More detail is set out in appendix 2.
  - i. revisions to two of the existing reporting pack tables related to summarising operating expenditure (table 3.1) and capital expenditure (table 4.1). The tables will gather additional information for all prior years of the RIIO-T1 price control period and capture Licensees' views on current forecast levels.

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<sup>1</sup> 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.

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

- ii. revisions to two of the existing reporting pack tables related to documenting load (table 4.2) and non-load related expenditure (table 4.3).
  - iii. revision to an existing table documenting the physical characteristics of the transmission network (table 5.1). The table will collate information on network changes for all prior years of the RIIO-T1 price control period as well as the current reporting year.
  - iv. a revised table that combines the previous three separate tables related to documenting the emissions of sulphur hexafluoride (SF<sub>6</sub>) with an additional requirement to report relevant annual data for all prior years of the RIIO-T1 price control period as well as the current reporting year.
  - v. clarification to the definition relating to the term "Outputs".
7. The Licensees will populate these as part of the 2015-16 RIGs process.

### **Proposal to introduce additions to the RIGs**

8. The Authority proposes to introduce the following additions to the RIGs under SC B15.
- i. introduction of a new table to capture Licensees' views on actual and current forecast levels of input prices over the RIIO-T1 price control period (table 2.7). The Licensees will populate this as part of the 2015-16 RIGs process.
  - ii. introduction of definitions for the following terms: "Lead assets", "Non-lead assets", "Ofgem Scheme Reference", and "Output reference". These definitions are for the purpose of the RIGs only.
  - iii. a new chapter has been included in the guidance document to provide instructions for completion of the RIIO-T1 Scheme-Output Referencing Workbook.
9. We have also developed narrative templates for each Licensee to follow when submitting commentary to support the RIGs return. These templates are published alongside this Notice. The Licensees will populate these templates as part of the 2015-16 RIGs process. The purpose of the proposed template is to enhance the quality and the accuracy of the information available to the Authority. Views are invited on the format of the templates.

### **Proposal to introduce new tables on a trial basis**

10. Further, two new tables are included on a trial basis, with a view to fully activating them as part of the submission for the fourth year of RIIO-T1 (2016-17). We are consulting on these changes in parallel to the proposed changes to the RIGs detailed in paragraphs 6, 8 and 9.
11. The first trial table requests information on the breakdown of cost information for a representative sample of financially closed projects. The table covers both load-related and non-load related expenditure. It is our initial view that the information will improve the quality and the granularity of information (currently only available on an aggregated basis) on the costs of schemes financially completed within the reporting year. Our intention is that when fully developed this table will replace table 5.8 'Lead asset – unit cost actuals'. For the avoidance of doubt, Licensees are not required to populate this trial table in accordance with the 31 July 2016 deadline. We will decide on the submission timescales through ongoing discussion with the Licensees.

12. We invite views on:
  - the proposed reporting categories in this table, and
  - format and layout.
13. The second trial table requests additional information on health and criticality of assets and how these change over time, which we require to implement and operate the Network Output Measures (NOMs) methodology<sup>3</sup>. The information will help to identify and quantify the impact of all material factors contributing to any over-/under-delivery and to changes in the timing of work over the RIIO-T1 price control period. Our intention is that when fully developed this table will replace '6.15.1 Network Output Measures - Asset Health and Criticality' in the current RIGs pack and will auto-populate '6.15.2 Network Output Measures - Replacement Priority' table. For the avoidance of doubt, Licensees are not required to populate this trial table in accordance with the 31 July 2016 deadline. We will decide on the appropriate timeframe for submission through ongoing discussion with the Licensees.
14. We invite views on:
  - the proposed reporting categories on this table, and
  - format and layout.

### ***Proposal to introduce reconciliation tables***

15. Finally, we have developed a separate workbook template requiring a one-off submission of information from the Licensees entitled 'RIIO-T1 Scheme-Output Referencing Workbook' (SORW). The purpose of the SORW template is to facilitate a better understanding of the changes in the Licensees' actual and forecast investment from the original RIIO-T1 business plan on which we set the allowances. A generic excel template without any business plan data has been published alongside the draft 2015-16 RIGs reporting pack. Each Licensee is required to populate an individual template (provided separately). The template requires each Licensee to complete a mapping exercise of their business plan schemes' list to all outputs forecast to be delivered by the capital programme at the time the RIIO-T1 business plans were submitted and the level of allowance that was set.
16. This is an offline workbook and is not part of the 2015-16 RIGs reporting pack. However, our engagement with the Licensees has established that such information is required to facilitate our duty of monitoring compliance with the RIIO-T1 Final Proposals. Specifically, it will provide information which will enable the Authority to relate outputs to the cost of delivering them and to effectively monitor the impact of movements in capital programmes on the agreed outputs and associated costs over time. The Licensees have indicated their commitment to populate their individual SORW templates as robustly and accurately as possible no later than 31 July 2016 to ensure the correct cross-referencing of schemes in the revised tables in this RIGs reporting pack related to documenting load and non-load expenditure.
17. A new chapter has been included in the RIGs guidance document to provide instructions for completion of the SORW. Views are invited on the proposed text.

### ***Further information***

18. Appendix 1 to this Notice provides a link to the following documents, which show the proposed modifications and additions:

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<sup>3</sup> Being developed by Licensees in accordance with Special Condition 2L of the electricity transmission licences.

- (a) RIIO-T1 Electricity Transmission Price Control – Regulatory Instructions and Guidance: Version 3.0
- (b) RIIO-T1 Electricity Transmission Costs and Outputs Reporting Template: Version 3.0

- 19. Appendix 2 to this Notice sets out further detail on the various proposed modifications and additions.
- 20. Copies of this Notice and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
- 21. Any representations on the proposed modifications must be made before 5pm on 11 April 2016 to Anthony Mungall, Office of Gas and Electricity Markets, 107 West Regent Street, Glasgow, G2 2BA or by email to [anthony.mungall@ofgem.gov.uk](mailto:anthony.mungall@ofgem.gov.uk).
- 22. All responses will normally be published on Ofgem’s website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication (and explain why). We prefer to receive responses in an electronic form so that they can be published easily on our website.
- 23. Subject to any representations, the Authority proposes to modify the RIGs in a direction to be issued on or after 20 April 2016 and the RIGs will take effect for the submission of information due by 31 July 2016, which relates to 2015-16 reporting year.

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**Min Zhu**  
**Associate Partner, Costs and Outputs**  
**Duly authorised on behalf of the Authority**  
**10 March 2016**

## **Appendix 1 to the Authority's Notice dated 10 March 2016**

### **Proposed Regulatory Instructions and Guidance**

RIIO-T1 Electricity Transmission Price Control – Regulatory Instructions and Guidance:  
Version 3.0

RIIO-T1 Electricity Transmission Costs and Outputs Reporting Template: Version 3.0

**Appendix 2 to the Authority’s Notice dated 10 March 2016  
Proposed modifications to the Regulatory Instructions and Guidance**

Table	Proposed modifications
3.1 Opex summary	<p>Revised table to gather additional information on year-on-year movements of actual expenditure to date and the Licensees’ views on forecast expenditure over each of the eight years of the price control period. The revisions enable a more informed comparison of the actual level of expenditure in the relevant reporting year to the forecast level of expenditure submitted in the previous reporting year. Such information will reduce the need for additional questions each year.</p>
4.1 Capex summary	<p>Revised table to gather additional information on year-on-year movements of actual expenditure to date and the Licensees’ views on forecast expenditure over each of the eight years of the price control period. Revisions enable a more informed comparison of the actual level of expenditure in the relevant reporting year to:</p> <ul style="list-style-type: none"> <li>i. the forecast level of expenditure submitted in the previous reporting year, and</li> <li>ii. to the level of allowance that was set when the RIIO-T1 business plans were submitted.</li> </ul> <p>The revisions will reduce the need for additional questions to the Licensees each year.</p>
4.2 Expenditure on load related schemes	<p>Revised table to gather additional information on the level of expenditure associated with load related capex schemes, which will give greater visibility to Licensees’ capital plans and reduce the need for additional questions to the Licensees each year.</p> <p>The additional information in 4.2a includes:</p> <ul style="list-style-type: none"> <li>• TO scheme reference</li> <li>• Ofgem scheme reference</li> <li>• Mechanism – category of the scheme as per the licence</li> <li>• Output delivery date</li> <li>• Unique output reference</li> <li>• Outputs associated with each scheme - actual and forecast</li> </ul> <p>Licensees are required to report forecast annual expenditure on a rolling eight year basis.</p> <p>Table 4.2b requests that Licensees specify their forecast expected deviations of expenditure over the RIIO-T1 period from table 4.2a on a portfolio basis.</p>
4.3 Expenditure on non load related schemes	<p>Revised table to gather additional information on the level of expenditure associated with non load related capex schemes, which will give greater visibility to Licensees’ capital plans and to reduce the need for additional questions to the Licensees each year.</p> <p>The additional information in table 4.3a includes:</p> <ul style="list-style-type: none"> <li>• historical and forecast cost data on all non-load related schemes with expenditure in RIIO-T1</li> <li>• any outputs from non-lead asset schemes</li> <li>• related expenditure on non-load related schemes to outputs delivered, and</li> <li>• information on all non-lead outputs from non-lead schemes that formed part of a licensee’s RIIO-T1 business plan (even if the output</li> </ul>

	<p>it is now being delivered by a lead asset scheme).</p> <p>Licensees are required to report forecast annual expenditure on a rolling eight year basis.</p> <p>Table 4.3b requests that Licensees specify their forecast expected deviations of expenditure over the RIIO-T1 period from table 4.3a on a portfolio basis.</p> <p>Table 4.3c applies only to SPT and requires information of any claims it expects to submit for Uncertain NLR under Special Condition 6H.</p>
5.1 System characteristics and activity indicators	Revised table to collate information on network changes to date (Licensees' views on forecast values are not required). This will allow additional monitoring of year-on-year network changes and enable the Licensee's to better explain year on year movements.
6.5. SF <sub>6</sub> emissions	Revised table that combines the previous three separate SF <sub>6</sub> tables with an additional requirement for Licensees to report relevant annual data for all prior years of RIIO-T1 as well as the current reporting year.
RIGs definitions	We have proposed a clarification to the definition relating to the term "Outputs".
Other changes	Minor changes to other tables and the associated guidance to provide clarification, correct typographical errors and improve the information submission.
<b>Proposed additions</b>	
2.7 Input prices	New table added to capture Licensees' views on actual and current forecast levels of input prices over each of the eight years of the price control period, which will give greater transparency of the Licensee's performance and on the factors that might impact expenditure.
Chapter 10 of the RIGs document	A new chapter has been included in the guidance document to provide instructions for completion of the RIIO-T1 Scheme-Output Referencing Workbook.
RIGs definitions	<p>We have proposed to introduce definitions for the following terms in appendix 1 of the RIGs document:</p> <ul style="list-style-type: none"> <li>• Lead assets</li> <li>• Non-lead assets</li> <li>• Ofgem Scheme Reference</li> <li>• Output reference</li> </ul>
Narrative templates	We have developed narrative templates for each Licensee to follow when submitting commentary to support the RIGs return.
<b>New trial tables</b>	
Cost breakdown	Trial table intended to gather more granular data on the costs of schemes financially completed within the reporting year and reduce the need for additional questions each year.
NOMs detail	Trial table intended to gather additional information on lead asset categories and voltages, which will facilitate the implementation and operation of the Network Output Measures (NOMs) methodology.