



Making a positive difference  
for energy consumers

To: Cadent Gas Limited,  
Northern Gas Networks Limited,  
Scotland Gas Networks plc,  
Southern Gas Networks plc,  
Wales & West Utilities Limited,  
Network operators, interested  
stakeholders

Email: [Daniel.Kyei@ofgem.gov.uk](mailto:Daniel.Kyei@ofgem.gov.uk)

Date: 13 March 2019

Dear Company Secretaries and stakeholders,

## **Proposal to make modifications to the Gas Distribution Regulatory Instructions and Guidance**

We propose to make changes to the Gas Distribution Regulatory Instructions and Guidance ("RIGs"). Please find enclosed a Notice, issued pursuant to paragraph 10 of Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of the Gas Transporter Licence, regarding our proposed changes.

In addition to revisions to existing tables and guidance, we set out in our 'RIIO Accounts way forward and alternative approach' letter<sup>1</sup> in August 2018, that we would propose modifications to the RIGs to include the Regulatory Financial Performance Reporting (RFPR) requirement. We said we wanted to see a step-change in how financial performance is reported. The introduction of the RFPR will provide more targeted detailed financial information on network company RIIO performance. In particular, this new reporting will provide an insight into the impacts of each companies' level of gearing, its cost of debt, and actual tax payments on its returns under the price controls.

As part of an information request in October 2018<sup>2</sup>, we asked the companies to report for regulatory year 2017-18 using the new RFPR; we have since worked with them to improve this reporting requirement. The RFPR guidance and template are proposed as an additional annex to the RIGs.

If we implement these changes, they will take effect in April 2019<sup>3</sup>. For the avoidance of doubt, this means that the data submitted in July 2019 (in respect of the 2018/19 reporting year) would use the RIGs as modified.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/08/open\\_letter\\_riio\\_accounts\\_way\\_forward.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/08/open_letter_riio_accounts_way_forward.pdf)

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/10/rfpr\\_request\\_for\\_information\\_oct\\_18.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/10/rfpr_request_for_information_oct_18.pdf)

<sup>3</sup> We propose to modify the RIGS in a direction in April 2019.

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

Yours faithfully,

**Steven McMahon**  
**Deputy Director Systems & Networks**  
**13 March 2019**

**Cadent Gas Limited**

(Company Number: 10080864)

**Northern Gas Networks Limited**

(Company Number: 05167070)

**Scotland Gas Networks plc**

(Company Number: SC264065)

**Southern Gas Networks plc**

(Company Number: 05167021)

**Wales & West Utilities Limited**

(Company Number: 05046791)

**Notice under paragraph 10 of Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of the Gas Transporter Licence (the "Licence") granted to the Licensees under section 7 of the Gas Act 1986 (the "Act")**

The Gas and Electricity Markets Authority (the "Authority"<sup>1</sup>) hereby gives notice under paragraph 10 of SSC A40 as follows:

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

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SSC A40 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-GD1 Final Proposals<sup>2</sup>.
2. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SSC A40, 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 to this Notice.
3. The proposed modifications to the RIGs consist of revisions to existing tables and guidance. These modifications are being proposed for the purpose of clarifying the existing reporting requirements or formalising requirements that have been identified through previous reporting periods. In addition to these changes, we have introduced the requirement for Licensees to report and publish a Regulatory Financial Performance Reporting (RFPR). The effect of the proposed modifications will be to require the Licensees to provide more accurate, consistent and complete information to the Authority, so as to enhance the quality and the accuracy of the information available to it.
4. 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 Regulatory Reporting Pack excel template,
  - the Regulatory Instructions and Guidance document, which supports the Regulatory Reporting Pack template,
  - Revenue Reporting Pack excel template, and

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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> <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-final-proposals-%E2%80%93-overview>

- introduction of RFPR guidance and template.
5. The main modifications are summarised briefly below:
- RFPR guidance and template
    - i. Introduction of the RFPR requiring the Licensees to provide more targeted detailed financial information on network company RIIIO performance.
  - Regulatory Instructions and Guidance
    - ii. General amendments to correct minor grammatical errors.
    - iii. Clarifications made in Tables 2.5 'Reliability' and 7.2 'Reliability Outputs' on sections to exclude major events in reporting planned and unplanned interruptions.
    - iv. Additional guidance provided on Table 3.1 'Opex cost matrix' on estimating Full Time Equivalent (FTE) staff numbers for contract labour and related party staff.
    - v. Additional guidance provided on Table 3.1 'Opex cost matrix' under controllable costs to exclude compensation payments in relation to standards of performance, and guidance on Table 8.3 'Guaranteed Standards of Performance (GSOP)' to clarify that it should be the only table for reporting GSOP penalty payments.
    - vi. Addition made to chapter 5 'Instructions for completing the operating expenditure' Table 3.1 – opex cost matrix (controllable activity cost) to include Centralised Emergency Materials and Equipment (CEME) costs in completing Regulatory Reporting Pack ("RRP") Table 3.1.
    - vii. Addition made to chapter 9 under 'Reliability Output' to define customers to be recorded in RRP Table 7.2.
    - viii. Changes made to chapter 12.3 'totex drivers' template table to improve classification and quantification of cost over/underspends key drivers.
    - ix. Amendment made to Appendix 1 - Glossary on the titles of sub categories for work management to be consistent with RRP Table 3.1.
  - Regulatory Reporting Pack
    - x. Update made to Universal data Table on Retail Prices Index to reflect the latest data.
    - xi. Tables 1.4 'Reconciliation to Regulatory Accounts' and 1.5 'Net Debt and Tax Clawback' no longer required to be completed.
    - xii. Changes made to Table 8.3 'Guaranteed Standards' formulae to calculate Guaranteed Standards of Service target performance correctly.

- Revenue Reporting Pack
    - xiii. Update made to Universal data Table on Retail Prices Index to reflect the latest data.
    - xiv. Table 11 'Reconciliation to Regulatory Accounts' no longer required to be completed.
    - xv. Changes made to formulae in Table 'NTS Exit Capacity Cost Adjustment' to provide correct output figure.
6. The Licensees will populate and/or return the reporting packs as part of the 2018-19 RIGs process.

**Further information**

7. Appendix 1 to this Notice provides a link to the following documents, which show the proposed modifications as incorporated:
- (a) RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 6.0
  - (b) RIIO-GD1 Gas Distribution Regulatory Reporting Pack Template: Version 6.0
  - (c) RIIO-GD1 Gas Distribution Revenue Reporting Pack Template: Version 6.0
  - (d) RIIO Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance: Version 1.0
  - (e) RIIO Regulatory Financial Performance Reporting – Template: Version 1.0
8. 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))
9. Any representations on the proposed modifications must be made on or before 11 April 2019 to Daniel Kyei at Ofgem, 4<sup>th</sup> Floor, 10 South Colonnade, Canary Wharf London E14 4PU, or by email to [Daniel.Kyei@ofgem.gov.uk](mailto:Daniel.Kyei@ofgem.gov.uk).
10. 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 Systems & Networks**  
**Duly authorised on behalf of the Authority**

**13 March 2019**

## **Appendix 1: Regulatory Instructions and Guidance incorporating proposed modifications**

A copy of the following documents can be found on our website at the link provided below:

- RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 6.0;
- RIIO-GD1 Gas Distribution Regulatory Reporting Pack Template: Version 6.0;
- RIIO-GD1 Gas Distribution Revenue Reporting Pack Template: Version 6.0;
- RIIO Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance: Version 1.0;
- RIIO Regulatory Financial Performance Reporting – Template: Version 1.0.

<https://www.ofgem.gov.uk/publications-and-updates/notice-proposing-modifications-regulatory-instructions-and-guidance-rigs-riio-gd1-version-60-0>