

To: Gas Distribution Network
Operators; interested
stakeholders

Email: neil.munro@ofgem.gov.uk

Date: 14 December 2021

Dear Company Secretaries and stakeholders,

Consultation on Regulatory Instructions and Guidance (RIGs) and Regulatory Reporting Packs (RRP) to apply during RIIO-GD2

The purpose of this consultation is to seek views on the proposed modifications to the RIGs and RRP data templates¹ for Gas Distribution Networks (GDNs²). The RIGs, and RRP, are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from GDNs to monitor performance against their RIIO-2 objectives and hold them to account. The draft RIGs (Version 1.1) and draft RRP (Version 1.1) are published alongside this letter.³

Introduction

In 2019, we published Business Plan Data Templates (BPDTs) and associated instructions and guidance for use by GDNs to complete their business plan submission for the RIIO-2 gas distribution price control. The data and accompanying explanation received through the templates was subject to review and assessment and formed the basis of the Final Determinations for RIIO-GD2.⁴

Following the publication of Final Determinations in December 2020, we undertook a review of the RIIO-GD1 RRP and RIIO-GD2 BPDT focusing on the data captured, how the data is used and the data flow/structure.

From this review, we identified issues with how we structurally set up and present data tables. Using these findings, and informed by regular engagement with the GDNs, we have developed a revised RIGs for the purpose of annual reporting in RIIO-GD2. We have designed and structured the RRP data templates to be a hybrid version of the RIIO-GD1 RRP and RIIO-GD2 BPDT.

We have also aimed to incorporate linkages within the RRP to reduce duplicated data entries and to improve transparency in areas of cost reporting, to better reflect the

¹ The draft data template contains the Cost & Volume RRP data worksheets only; worksheets for the collection of GD2 Revenue information used to update values in the Price Control Financial Model (PCFM) are not included. A separate guidance document is available for the data input requirement for the revenue worksheets: <https://www.ofgem.gov.uk/publications/riio-2-pcfm-guidance>

² Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales & West Utilities Limited.

³ A change log is not provided as this is first reporting pack produced for the RIIO-GD2 period.

⁴ <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

structure of the funding provision within the Final Determinations and RIIO-GD2 framework.

We are consulting on the draft RIGs and RRP data templates, which we believe represent a pragmatic set of reporting requirements for GDNs to use when submitting annual information during the RIIO-GD2 price control period. We seek stakeholder comments on the form and content of the RIGs and how we intend to monitor performance over the RIIO-GD2 period.

An overarching change to the RRP process that we have proposed is to request that GDNs supply all cost data (unless otherwise stated in the RIGs) in a 2018/2019 price base. The rationale for this change to:

- Ensure the RRP and Price Control Financial Model (PCFM) are aligned to minimise the need for rebasing that is currently needed to ensure input data is in a consistent format for the Annual Iteration process;
- Simplify and speed up the process of creating a RRP containing all price control data per network region – which under a single price base will not require the annual consolidation and rebasing of previous years' data templates. This will also simplify the production of RIIO Annual Reports and ease data comparison to Final Determinations; and
- Align gas regulatory reporting with the approach being considered for Electricity Transmission. Transmission. Transmission.⁵

We have engaged with GDNs on this proposal and recognise there are some reservations. In particular, that this change would be onerous for GDNs to implement. We note that this would require some system changes however, we will work closely with the GDNs to set out a clear methodology for making inflation adjustments, which we do not envisage being difficult to implement. We believe the benefits of having costs reported consistently in a single price base across the different sectors in the RIIO price controls is a proportionate change that will increase data transparency and improve data comparability for us and GDNs.

We expect that the final version of the RRP data templates will be populated fully by GDNs and submitted to Ofgem by 31 July 2022. In a small number of cases, we understand that not all information will be available for the first annual submission, for example data that cannot yet be sourced from internal systems and be restated in the requested manner without some further attribution or allocation method. We are engaging with network companies to understand when this information will be available for submission. If information is incomplete at submission, we expect to be informed of the reasons why, and when this will be remedied.

Timeline for implementation

We welcome comments on our proposed modifications by Tuesday, 25th January 2022, and the details for responding are contained on our website. We then intend to publish the final versions of the RIGs and RRP data templates in March 2022.

If we implement these changes, they will take effect immediately. For the avoidance of doubt, this means that the data submitted in July 2022 (in respect of the 2021/22 reporting year) would use the RIGs and RRP as modified.

Potential development of regulatory reporting over RIIO-2

⁵ <https://www.ofgem.gov.uk/publications/consultation-riio-et2-draft-annual-reporting-data-templates-and-associated-instructions-and-guidance>

During RIIO-2 we will continue to review all opportunities to improve both the efficiency and effectiveness of the annual reporting process with the GDNs.

We are aware that companies are actively considering improvements to their own systems which could support further improvements that can be made within the boundaries of existing data systems architecture. Longer term this may extend to more fundamental changes to the way we collect, process and present data on regulated network companies' performance, moving towards the goal of a more automated system and process.

Yours faithfully,

Michael Wagner
Deputy Director, Gas sector
14 December 2021