

To:

Electricity Distribution,
Gas Distribution, Gas
Transmission, Electricity
Transmission; Network
Operators; and
Stakeholders

Date: 26 April 2024

Dear Company Secretaries and Stakeholders,

Proposal to modify the Regulatory Instructions and Guidance (“RIGs”) for RIIO-2

We propose to make modifications to RIGs - the RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance (“RFPR RIGs”).

Please find enclosed the Notices setting out our proposed changes issued pursuant to the relevant licence conditions for each sector.

RFPR RIGs

The RFPR RIGs outline the reporting requirements and set out instructions and guidance for each licensee regarding the RFPR template.

As part of the enclosed Notices, we provide the following documents:

- RFPR RIGs – a “tracked” version; and
- RFPR RIGs template

Proposed modifications

We are proposing a number of updates and modifications to the RIGs RFPR template and guidance to align them with the RIIO-2 special licence conditions and Price Control Financial Model (“PCFM”). These proposals include:

- Labelling changes and updates to variable values;
- Amendments to the RFPR template and RIGs to reflect RIIO-ED2; reporting requirements in view of the first year RIIO-2 submission this year; and

- Minor snagging changes and corrections to the RFPR template; and,
- Adding calculations and sections, consolidating and re-arranging data, where appropriate.

The reason for these proposed changes is to improve the quality of data collection, ensure accuracies and to align the terminology and calculations within the RFPR with the RIIO-2 licence, so that we are able to gather the relevant data required to administer and monitor the RIIO-2 price controls.

We are also proposing to introduce some new reporting requirements on financial resilience and are proposing a modification to the existing corporate governance section in RFPR RIGs to be used for the 2024 RFPR submissions. These new proposals are set out below, along with our justification for them.

Rationale for proposing to include information requests on Financial Resilience and Dividend Policies:

In the Finance Annex to the RIIO-3 Sector Specific Methodology Consultation ("SSMC") for gas distribution and gas and electricity transmission licensees and in the letter from Mick Watson to electricity distribution licensees both issued on 13th December 2023, we outlined a rationale for why we wanted to seek further information in the RFPR. If the proposed modification is implemented, this further information would be used to improve our monitoring of financial resilience and would provide further insight into licensees' dividend distribution policies.

In response to issuing the draft amendments and through the SSMC consultation process, we received some feedback questioning both the rationale for Ofgem proposing to request this information and questions as to why we are proposing to collect it through the RFPR. We will address those questions below.

- 1) The proposal to request this information is driven by the need to help identify financial resilience risk areas is in line with Ofgem's 24/25 work plan that we consulted on during 2024 and published the final version on 28th March 2024: [Decision for: Consultation of Ofgem's Forward Work Programme for 2024/25 | Ofgem](#).

Within the work plan we committed to "develop our view of financial resilience across the energy system". We said "we will identify risk areas and governance to drive systematic, proportionate improvements in the sector."

- 2) It also forms part of Ofgem’s Multi-Year strategy also issued on 28th March 2024 (Section 10.2 and under the Consumer Interest Framework, pg 19): [Ofgem's multi year strategy](#).
- 3) We agree with the credit rating agencies that we are required to do at least a brief analysis of a networks’ corporate family group in order to fully understand licensees’ credit quality and financial resilience. For example, this is clearly articulated by Moody’s in its Rating Methodology report for Regulated Electric and Gas Networks issued in 2022, Appendix B: [386754 \(moodys.com\)](#).

Moody’s states: “Even where meaningful regulatory barriers exist such that ratings of individual regulated entities vary more widely from the consolidated credit profile, the credit quality of the parent still impacts an individual network’s ratings in most circumstances. Therefore, while the credit analysis of individual regulated networks may have greater weight in our ratings, our assessment of parent credit quality is also important.”

- 4) We propose to do an annual review of a licensees’ financial resilience based on public information and the information contained within the RFPR. We would not publicly disclose results from this review, but it may be used to have further engagement with individual licensees.

In order to ensure that the information we receive is provided in a consistent time period and contained within one information request, we consider it appropriate to incorporate it into the RFPR information collection. This is why we are proposing the changes described in this Notice.

If we implement these proposed modifications to the RFPR RIGs, they will take effect in time for the submission due in September 2024 (in respect of the 2023/24 reporting year) for the Electricity System Operator¹, Electricity Distribution, Gas Distribution and Transmission companies.

¹ Depending on a number of factors, including agreeing timelines with key parties, our aim is for National Energy System Operator (NESO) to be operational in 2024. The day when NESO is first established and operational when the first NESO licences come into force is referred to as Day 1. For reporting submissions in 2024, where a reporting submission is due after Day 1 and for the avoidance of doubt, any actual and relevant forecast financial values for the period 2023/24 and 2024/25 must still be provided as part of the 2024 RFPR submissions along with any supporting commentary.

We welcome representations on our proposed modifications by 24 May 2024, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Mick Watson

Deputy Director of Regulatory Finance, Financial Resilience and Controls

Duly authorised on behalf of the Authority

26 April 2024

**Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales & West Utilities Limited**

(each one a "Licensee", and together, "the Licensees")

**Notice under paragraph 8 of the 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")² hereby gives notice under paragraph 8 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 to 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-GD2 Final Determinations.³
2. SSC A40 of the Licence sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2024 in relation to:
 - The RIIO-2 Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
 - Proposed general amendments to the template and guidance to correct minor grammatical and referencing errors;

²The "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.

³<https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

- Proposal to updating the guidance to collect additional data and reporting regarding the financial resilience and corporate governance;
 - Proposed amendments to the template and guidance to reflect RIIO-ED2 reporting requirements in view of the first year of RIIO-2 submission this year; and
 - Proposed updating of input data and parameters for the 2023/24 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GD2 and to update the existing reporting requirements on the Licensees and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Further information

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this Notice show the proposed modifications as they would be incorporated if made.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
9. Any representations on the proposed modifications must be made on or before 24 May 2024 to Stephanie Fernandes by email to stephanie.fernandes@ofgem.gov.uk
10. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as "not for publication".

Mick Watson

Deputy Director of Regulatory Finance, Financial Resilience and Controls

Duly authorised on behalf of the Authority

26 April 2024

National Gas Transmission plc

(the "Licensee")

Notice under paragraph 8 of the Standard Special Condition A40 (Regulatory Instructions and Guidance) SSC A40 of the Gas Transporter Licence granted to the Licensee under section 7 of the Gas Act 1986 (the "Act").

The Gas and Electricity Markets Authority (the "Authority")⁴ hereby gives notice under paragraph 8 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 Licensee 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-GT2 Final Determinations.⁵
2. SSC A40 of the Licence sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority hereby gives notice to the Licensee that it proposes to modify the RIGs.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2024 in relation to:
 - The Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
 - Proposed general amendments to the template and guidance to correct minor grammatical and referencing errors;
 - Proposed updating the guidance to collect additional data and reporting regarding the financial resilience and corporate governance;

⁴The "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.

⁵[RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Proposed amendments to the template and guidance to reflect RIIO-ED2 reporting requirements in view of the first year of RIIO-2 submission this year; and
 - Proposed updating of input data and parameters for the 2023/24 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-GT2 and, to update the existing reporting requirements on the Licensee, and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
 6. The Licensee must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Further information

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this Notice show the proposed modifications as they would be incorporated if made.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
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26 April 2024

National Grid Electricity Transmission plc
National Grid Electricity System Operator Limited
SP Transmission plc
Scottish Hydro Electric Transmission plc

(each one a "Licensee", and together, "the Licensees")

Notice under paragraph 8 of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") of the Electricity Transmission Licence (the "Licence") granted to the Licensees under section 6(1)(b) of the Electricity Act 1989 (the "Act").

The Gas and Electricity Markets Authority (the "Authority")⁶ hereby gives notice under paragraph 8 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") in accordance with SC B15 of the Licence. The RIGs are the primary means by which the Authority directs the Licensees to collect and to 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-T2 Final Determinations.⁷
2. Paragraph 8 of SC B15 of the Licence sets out the process for issuing and modifying the RIGs. In accordance with SC B15, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2024 in relation to:
 - The Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:

⁶ 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.

⁷ [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

- Proposed general amendments to the template and guidance to correct minor grammatical and referencing errors;
 - Proposed updating of the guidance to collect additional data and reporting regarding the financial resilience and corporate governance;
 - Proposed amendments to the template and guidance to reflect RIIO-ED2 reporting requirements in view of the first year of RIIO-2 submission this year; and
 - Proposed updating of input data and parameters for the 2023/24 reporting year
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to update the existing reporting requirements on the Licensees, and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Further information

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this Notice show the proposed modifications as they would be incorporated if made.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
9. Any representations on the proposed modifications must be made on or before 24 May 2024 to Stephanie Fernandes by email to Stephanie.Fernandes@ofgem.gov.uk

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26 April 2024

Electricity North West Limited
Northern Powergrid: Northeast
Northern Powergrid: Yorkshire
SP Energy Networks: Distribution
SP Energy Networks: Manweb
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution
UK Power Networks: London Power Networks
UK Power Networks: South East Power Networks
UK Power Networks: Eastern Power Networks
National Grid Electricity Distribution (West Midlands) plc
National Grid Electricity Distribution (East Midlands) plc
National Grid Electricity Distribution (South Wales) plc
National Grid Electricity Distribution (South West) plc

(each one a "Licensee", and together, "the Licensees")

Notice under part C of Standard Condition 46 (Regulatory Instructions and Guidance) ("SC 46") of the Electricity Distribution Licence (the "Licence") granted to the Licensees under section 6(1)(c) of the Electricity Act 1989 (the "Act").

The Gas and Electricity Markets Authority (the "Authority")⁸ hereby gives notice under part C of SC 46 of the Licence as follows:

Proposal to modify the Regulatory Instructions and Guidance

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") in accordance with SC 46 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-ED2 Final Determinations.⁹
2. Part C of SC 46 of the Licence sets out the process for issuing and modifying the

⁸The "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.

⁹ [RIIO-ED2 Final Determinations | Ofgem](#)

RIGs. In accordance with SC 46, the Authority hereby gives notice to the Licensees that it proposes to modify the RIGs.

3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 30 September 2024 in relation to:
 - The RIIO-2 Regulatory Financial Performance Reporting excel template and guidance document.
4. The proposed modifications are summarised below:
 - Proposed general amendments to the template and guidance to correct minor grammatical and referencing errors;
 - Proposed updating of the guidance to collect additional data and reporting regarding the financial resilience and corporate governance;
 - Proposed amendments to the template and guidance to reflect RIIO-ED2 reporting requirements in view of the first year of RIIO-2 submission this year; and
 - Proposed updating of input data and parameters for the 2023/24 reporting year.
5. The purpose of the proposed modifications is to collect additional information in line with our Final Determinations for RIIO-ED2 and to update the existing reporting requirements on the Licensees and to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
6. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Further information

7. The RIIO-2 RFPR template and RIIO-2 RFPR Regulatory Instructions and Guidance documents published alongside this notice show the proposed modifications as incorporated.
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
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