

To:

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

Date: 28 June 2024

Dear Company Secretaries and Stakeholders,

Direction to amend the Regulatory Instructions and Guidance (“RIGs”) for RIIO-2

We have amended the RIGs to introduce:

- the RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance (“RFPR RIGs”) for the Electricity System Operator, Electricity Transmission, Electricity Distribution, Gas Distribution and Gas Transmission licensees.

The Gas and Electricity Markets Authority¹ (the “Authority”) gave notice² on 26 April 2024 (the “Notice”) that it proposed to make changes to the Regulatory Instructions and Guidance (“RIGs”). The Notice required any representations by licensees on the proposals to be made on, or before, 25 May 2024.

Prior to the consultation period closing the Authority received thirteen responses with representations on the consultation. All non-confidential stakeholder representations received, as well as our responses to them and the reasons for any changes made to the proposed RFPR template and RFPR RIGs documents in light of consultation responses, can be found in the ‘RFPR issues log’ published alongside this direction.

¹ The terms “the Authority”, “our” and “we” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

² [Notice of proposed modifications to the Regulatory Financial Performance Reporting template and guidance for RIIO-2 \(2024\) | Ofgem](#)

In addition to the published RFPR issues log, we summarise below the main areas that the consultation responses pertain to.

Although the amendments are referred to below as being 'proposed', this is a reference to the consultation position and responses. We have now decided to proceed with the amendments as set out in the Direction.

General updates and corrections

Licensees raised a number of general updates and corrections to the format and calculations in the RFPR template and consequential updates to the RIGs.

Following careful consideration of these responses, we have made the relevant changes, where appropriate, to reflect the new policies that we have implemented as part of our RIIO-2 Final Determinations (RII-GT2, RIIO-GD2, RIIO-ET2, RIIO-ED2 and RIIO-ESO) and to align the terminology and calculations in the RFPR with the RIIO-2 licences.

Financial Resilience & Corporate Governance

We received responses from 12 licensees on our proposed amendments to the Regulatory Financial Performance Reporting guidance covering Financial Resilience & Corporate Governance. The individual issues raised by the licensees and our responses are detailed in the "issues log" published alongside the decision.

We also received a response from the Energy Network Association (ENA), on behalf of its members, which summarised the majority of the licensees' comments, and was also referenced by some of the licensees in their responses. Therefore, we will respond to the main themes raised by the ENA in this Decision document, but please refer to the "issues log" for the individual responses.

Theme 1: Ofgem already has a comprehensive suite of obligations regarding financial resilience, dividends and their reporting.

Ofgem published its intention to request the information to which the consultation relates for the financial year 23/24 in a letter to the companies on 13 December 2023. We also set out a clear rationale as to why we required it over and above existing reporting measures. At the start of the consultation on 26 April 2024 we published further rationale as to why we require the information including references to its alignment with Ofgem's multi-year strategy and forward workplan, as well as evidence that Credit Rating agencies use the same or similar information in assessing each licensee's credit rating and therefore its risk of default on its debt – a key tenet of financial resilience. Under the licence conditions

(SSCA38, SLCB10, SLC40) licensees have the obligation to take “all appropriate steps” or use “reasonable endeavours” to maintain an investment grade rating – the additional information we are requiring licensees to provide will help us to monitor compliance with that licence condition.

Theme 2: The new requirements are retrospective and impose compliance risk onto the companies, in particular paragraphs 4.28 to 4.31.

The new clauses 4.28 to 4.31 are to provide more clarity on an existing requirement (under clause 4.24 of the existing guidance) for companies to provide “an explanation of dividend policies declared and paid and how these take account of long-term financial sustainability, including delivery for customers and other stakeholder obligations”. We believe that the new clauses are consistent with the existing requirement.

When you look at the detail of 4.28 to 4.31 and the information we require clause-by-clause it is:

- 4.28 – the clause details the information that can be redacted
- 4.29 – contains a request for the dividend policy and an expectation of what the dividend policy would contain that is broadly consistent with the previous requirements
- 4.30i – requests information on the governance process for deciding distributions, including the board members and observers present at the decision. We think that this is a reasonable request in the context of reviewing the rationale for distributions and their link to short and long term financial resilience.
- 4.30ii – requests the rationale for the level of distribution, including “any information used” in this decision. This is not a requirement to create a new rationale or new information in relation to the decision, but to provide information on what has already occurred in making the decision and is likely contained within board reports and board minutes.
- 4.30iii – requests a reference to any internal or external benchmarks used, which is a factual matter. As with 4.30ii, this is not a requirement to create new benchmarks. Companies should provide reference to any benchmark that they have already used to make the relevant decision. It is not a new requirement to use benchmarks, or to create new benchmarks.
- 4.31 – contains a definition of what we mean by dividends and distributions.

We accept that 4.29 goes further than the existing clause 4.24 in setting out Ofgem's expectations. Therefore, we have waived the requirement to comply the second sentence in this clause from "Ofgem's expectation... deferred distributions" for the reporting year 23/24 but expect compliance for the reporting year 24/25 onwards.

Theme 3: The proposed additional requirements are disproportionate and imprecisely defined, referencing 4.28, 4.29, 4.30, 4.16 and 4.17

We refer to our response to Theme 1 and our letter dated 13 December 2023 as to why we have requested this information. In the letter we outlined the concern that high leverage in a group MidCo or HoldCo level can potentially impact dividend and distribution decisions at the licensee level in ways that are not in the consumer interest and start to undermine the principle that consumers should be insulated from the impact of actual company financing decisions.

We refer to our response to Theme 2 for the definitions of 4.28 to 4.30,

We recognise that 4.16 and 4.17 requires reporting of information outside of the regulatory ringfence. In our response to Theme 1, we outline why we require this. In response to the consultation feedback from the licensees we have amended the language in the guidance to make it subject to *reasonable endeavours* and have clarified that we are only seeking information on external third-party debt. It is our expectation that the licensee will be able to comply with this if the information is the same or similar to information provided to the credit rating agencies for the purpose of obtaining a credit rating for the licensee, and / or is information that the licensee's treasury team routinely has access to as it also manages the finances of the relevant MidCo or HoldCo.

Theme 4: The RFPR is not an appropriate vehicle to report sensitive and commercial information. The information requested is not consistent with the purpose of the Regulatory Instructions and Guidance.

We do not agree with the ENA's argument that the proposed requirements are beyond the scope of the RIGs. Paragraph 1.3 of the RFPR RIGs provides that the reason that Ofgem collects data from the licensees is: "to enable us to administer the licence conditions that relate to the price control. This includes monitoring the performance of licensees against our Final Determinations, monitoring compliance with price control obligations and reviewing performance between price controls."

In our view, the changes to the RFPR RIGs will enable us to better monitor compliance with the licensee's existing obligations under the financial ring-fence conditions namely,

SLC43/SLCB6 'Restriction of Indebtedness and transfers of funds' and SSCA38/SLCB10/SLC40 'Credit rating of the licensee'.

Administratively it is the most efficient use of resources to ensure that licensees provide all the information related to a regulatory year at the same time, with reference to the same regulatory reporting year, to ensure that there is an internal consistency in the information. This should prevent ongoing clarification questions or reconciliations between two data sources if the data is provided at different points in the year or at different points of the reporting cycle.

Corporation Tax & reconciliation issues

One licensee raised a query in respect of RFPR tab R8, stating that the RFPR is currently seeking to compare 'regulated tax liability' with 'tax allowance' stating that one was a product of the other grossed up for tax-on-tax. This interpretation is incorrect. As stated in the RIGs, the purpose of the worksheet is to calculate out/under performance at notional and actual levels of gearing. The RIGs state that Tab R8 should be populated with the value from the CT600 removing any non-regulated tax liability. We would not therefore expect the regulated tax liability to equal the tax allowance adjusted for tax-on-tax, as there will be differences arising between the PCFM and tax return.

One licensee responded stating that the requirement for a statement of board assurance of the tax reconciliation (RFPR Tab R8a) should be removed, citing concerns around the time and resource required to prepare it compared to the value of the assurance gained, noting also that the assurance statement was not required for the previous year.

Ofgem provided a grace period in the previous reporting period, acknowledging that there would be teething issues with the first period of reporting. The requirement to provide the board assurance statement is a licence requirement and we expect it to be provided with the other submissions required for the 2024 reporting cycle by the RIIO-GD2 and T2 sectors. We note that the first submission date for the ED2 sector is 30 September 2025.

In general, we note that there has been a divergence of approach to tabs R8 and R8a of the 2023 RFPR submissions between some licensees. We intend to conduct a review of these tabs and the associated guidance, to increase consistency of reporting between licensees.

Debt Datasets

We received one query from a licensee related to our proposed clarifications on the rate and amount for use used to model the cost of debt instruments. We had proposed utilising the yield to maturity ("YtM") as the rate for use and the discounted or premium amount received at issue as the amount for use. The licensee highlighted accuracy issues with this approach in the current formulation of the model and recommended use of the coupon rate and nominal value instead.

We are mindful that the nominal value of the instrument combined with the coupon rate may not derive the true ongoing economic cost (and tax shield) of the instrument particularly if these instruments were issued at substantial discounts or premiums to par. This is because it would not capture the amortisation of any premium or discount at issue.

We are reviewing whether the RFPR would need to be enhanced to account for the amortisation of the discount according to the effective interest method. In the interim for fixed rate debt, we still consider that the YtM at issue as the rate for use and the proceeds as the amount for use provides the most accurate approximation of the economic cost of this debt. This is because it does capture the cost/ benefit of amortising discounts or premiums.

For index linked debt ("ILD"), we are aware there may be wider issues with adopting this method given how the RFPR computes accretion. For this reporting year, we will adopt the coupon rate as the rate for use and the nominal value of the bond as the amount for use. We note there are limited ILD instruments that have been issued at a discount or premium which limit the impact of this solution. We will seek to align the ILD approach to the fixed rate debt approach in subsequent reporting years.

We are not aware of any floating rate instruments that have been issued at a discount or premium and so consider it appropriate to use the coupon rate and nominal value.

For the purposes of gearing/ net debt calculations have provided licensees a field to input the net discounts (premiums) associated with fixed rate debt so these are adjusted back to their nominal values for the gearing calculation.

Our Decision

We have decided to implement the changes as set out in the RIIO-2 RFPR template and RFPR RIGs published on our website alongside this letter.

Please find enclosed the Directions setting out our changes issued pursuant to the

relevant Licence Conditions for each sector.

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

- RFPR RIGs guidance – a “clean” and “tracked” version
- RFPR RIGs template; and
- RFPR Issues Log

All of the non-confidential stakeholder representations received as well as our detailed responses to them and the reasons for the differences between the proposed template and the template that we are directing to be used can be found in the “RFPR issues log” published alongside these directions.

Timeline

The amendments to the RIGs will take effect on 28 June 2024. For the avoidance of doubt, this means that the data submitted on 30 September 2024 (in respect of the 2023/24 reporting year) will use the RFPR RIGs as amended by this Decision and the accompanying Directions

Yours faithfully,

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority

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")

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Standard Special Condition A40 of the Gas Transporter Licence

1. The Licensee holds a Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance ("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-GD2 Final Determinations.²
3. Standard Special Condition A40: Regulatory Instructions and Guidance ("SSC A40") sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority gave notice to the Licensees on 26 April 2024³ that it proposed to modify the RIGs, as set out in that notice.
4. The notice required any representations by licensees on the proposals made in that notice in relation to amending the RIGs to be made on, or before, 25 May 2024.
5. Prior to the consultation period closing the Authority received thirteen responses. The Authority has considered the representations in those responses and has made a number of amendments to the RIGs proposed as part of the consultation.

¹The "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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting template and guidance for RIIO-2 \(2024\) | Ofgem](#)

6. We have set out our responses to the non-confidential representations received and the modifications made to the RIGs as a result of these in the “RFPR issues log” published on our website.
7. The amendments 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.
8. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIO-GD2 and to align the template and guidance with the latest special licence conditions and Price Control Financial Model. Further details are contained in the Decision letter attached to this Direction.
11. The amendments to the RIGs will take effect on 28 June 2024.
12. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
28 June 2024

National Gas Transmission plc (with respect to its gas transmission network) (the "Licensee")

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Standard Special Condition A40 of the Gas Transporter Licence

1. The Licensee holds a Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") and is subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance ("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.²
3. Standard Special Condition A40: Regulatory Instructions and Guidance ("SSC A40") sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SSC A40, the Authority gave notice to the Licensee on 26 April 2024³ that it proposed to modify the RIGs, as set out in that notice.
4. The Notice required any representations by the licensee on the proposals made in that notice on amending the RIGs to be made on, or before, 25 May 2024.
5. Prior to the consultation period closing the Authority received thirteen responses. The Authority has considered the representations in those responses and has made a number of changes to the RIGs proposed as part of the consultation.
6. We have set out our responses to the non-confidential representations received and the amendments made to the RIGs as a result of these in the "RFPR issues log" published on our website.

¹The "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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting template and guidance for RIIO-2 \(2024\) | Ofgem](#)

7. The amendments 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.
8. The amendments are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to paragraph 3 of SSC A40 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIO-GT2 and, to align the template and guidance with the latest special licence conditions and Price Control Financial Model. Further details are contained in the Decision letter attached to this Direction.
11. The amendments will take effect on 28 June 2024.
12. The Licensee must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
28 June 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”)

Whereas –

The Gas and Electricity Markets Authority (the “Authority”)¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Condition B15 of the Electricity Transmission Licence

Whereas –

1. The Licensees each hold an Electricity Transmission Licence (the “Licence”) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the “Act”) and are subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance (“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-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator.²
3. Condition B15: Regulatory Instructions and Guidance (“SC B15”) sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SC B15, the Authority gave notice to the Licensees on 26 April 2024³ that it proposed to modify the RIGs, as set out in that notice.
4. The Notice required any representations by licensees on the proposals made in that notice in relation to amending the RIGs to be made on, or before, 25 May 2024.

¹The “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.

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

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting template and guidance for RIIO-2 \(2024\) | Ofgem](#)

5. Prior to the consultation period closing the Authority received thirteen responses. The Authority has considered the representations made in those responses and has made a number of changes to the RIGs proposed as part of the consultation.
6. We have set out our responses to the non-confidential representations received and the amendments made to the RIGs as a result of these in the "RFPR issues log" published on our website.
7. The amendments 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.
8. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to paragraph 3 of SC B15 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
11. The amendments will take effect on 28 June 2024.
12. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
28 June 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")

Whereas –

The Gas and Electricity Markets Authority (the "Authority")¹ hereby gives notice as follows:

Direction to amend the Regulatory Instructions and Guidance under Standard Condition 46 ("SC 46") of the Electricity Distribution Licence

Whereas –

1. The Licensees each hold an Electricity Distribution Licence (the "Licence") granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 (the "Act") and are subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance ("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.²
3. Condition 46: Regulatory Instructions and Guidance ("SC 46") sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10 of SC 46, the Authority gave notice to the Licensees on 26 April 2024³ that it proposed to

¹The "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.

² [RIIO-ED2 Final Determinations | Ofgem](#)

³ [Notice of proposed modifications to the Regulatory Financial Performance Reporting template and guidance for RIIO-2 \(2024\) | Ofgem](#)

modify the RIGs, as set out in that notice.

4. The Notice required any representations by licensees on the proposals made in that notice in relation to amending the RIGs to be made on, or before, 25 May 2024.
5. Prior to the consultation period closing the Authority received thirteen responses. The Authority has considered the representations made in those responses and has made a number of changes to the RIGs proposed as part of the consultation.
6. We have set out our responses to the non-confidential representations received and the amendments made to the RIGs as a result of these in the "RFPR issues log" published on our website.
7. The amendments 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.
8. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to Part C of SC 46 of the Licence, the Authority hereby directs that the RIGs will be amended in the manner specified in the attached Schedule.
10. The reason for the amendments made in this Direction is to collect additional information in line with our Final Determinations for RIIO-ET2 and RIIO ESO and, to align the template and guidance with the latest special licence conditions and Price Control Financial Model.
11. The amendments will take effect on 28 June 2024.
12. The Licensees must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Mick Watson
Chief Financial Advisor, Deputy Director
Duly authorised on behalf of the Authority
28 June 2024