

To:

Electricity Distribution  
Network Operators; and  
interested Stakeholders

Date: 10 April 2025

Dear Company Secretaries and Stakeholders,

**Decision to modify the Regulatory Instructions and Guidance (“RIGs”) and the Regulatory Reporting Pack (“RRP”) for RIIO-ED2**

We<sup>1</sup> are issuing directions under the RIGs and in particular in relation to the following documents for Electricity Distribution licensees:

- RIIO-ED2 Regulatory Instructions and Guidance
- RIIO-ED2 Reporting Pack Templates
- RIIO-ED2 Commentary

Please find enclosed the Directions setting out the changes we have made pursuant to the relevant Licence Conditions.

**RIGs and RRP**

The RIGs and RRP are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from licensees to monitor performance against their RIIO-ED2 objectives and hold them to account.

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

- RIIO-ED2 Regulatory Instructions and Guidance: Version 2.0
- RIIO-ED2 Regulatory Reporting template: Version 2.0
- RIIO-ED2 Commentary: Version 2.0

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<sup>1</sup> References to ‘the Authority’, ‘GEMA’, ‘Ofgem’, ‘we’, ‘us’ and ‘our’ are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets. Ofgem is the office of the Authority which supports GEMA.

The PCFM Guidance provides instructions and guidance to Electricity Distribution licensees to enable them to complete the reporting requirements associated with updating various values and performance data in the PCFM during the Annual Iteration Process (AIP). No updates were proposed through the consultation on version 1.1 of the PCFM Guidance, and the document remains unchanged.

## **Decision**

We have decided to make a number of modifications to the RIGs and to the RRP to align them with Standard Licence Condition 46 of the Electricity Distribution Licence (the Licence) and to make minor corrections.

On 21 February 2025 we published a consultation<sup>2</sup> setting out our proposed reporting templates and accompanying guidance. The consultation highlighted that these templates were an evolution of the data submission that accompanied the RIIO-ED2 Business Plan, which we used as the basis for setting allowances and outputs for the RIIO-ED2 price control period. We sought feedback on the form and content of the RIGs and RRP.

We received six responses to the consultation which raised a number of points relating to the reporting requirements. Our views in relation to these responses and any changes are set out in the Appendix to this Decision.

## **General updates**

We have included a number of changes and corrections to the RRP pack as well as updates to the RIGs to clarify reporting requirements.

The reason for these changes is to align the terminology and calculations within the RIGs and RRP with the RIIO-2 licence in order to gather the relevant data to administer and monitor the RIIO-2 price controls. All changes are captured and summarised in the 'change log' within the published RRP templates.

## **Timeline**

The modifications to the RIGs will take effect on 10 April 2025. For the avoidance of doubt, this means that data which will be submitted by licensees in July 2025 (in respect of the 2024/25 reporting year) will use the RRP and RIGs as modified.<sup>3</sup>

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<sup>2</sup> [Notice proposing modifications to the Regulatory Instructions and Guidance \(RIGs\) RIIO-2 Year 2 for Electricity Distribution | Ofgem](#)

<sup>3</sup> We note that Distribution Network Operators are required to submit a QoS Interruptions Stage Data file by 30 April 2025, a Reinforcement Load Index file by 30 September and a QoS HV Disaggregation file by 30 November. These data submissions will utilise the modified RRP and RIGs.

Yours faithfully,

Pete Wightman

Deputy Director

Network Price Controls

**Duly authorised on behalf of the Authority**

## **Appendix: Consultation responses to issues and Ofgem's view**

We received responses from six different stakeholders to our consultation on proposed modifications to the RIGs and RRP which raised a number of points relating to the reporting requirements. The respondents also highlighted a number of technical issues contained within the commentaries, templates and guidance documents. These included:

- corrections of formulaic errors;
- updates to data categorisation;
- references;
- clarifications; and
- proposed changes and additions to data input within the RRP.

We have considered the responses and addressed these detailed technical and functional matters, and they are reflected in the final published versions of the documents.

### **Annex B – Polychlorinated Biphenyls (PCB) Volume Driver**

Five of the six respondents commented on the Pole Mounted Transformer (PMT) PCB volume driver issue. Four of those respondents disagreed with our position to exclude oil changes and oil testing from the PCB volume driver. This is because they considered oil testing and oil changes to be within scope of the PCB volume driver, due to the use of the term 'PCB Interventions' meaning 'work undertaken by the licensee on pole-mounted Transformers, associated poles and pole-mounted switchgear.' One respondent did not directly address our proposed position but highlighted the need for a formula change (Table T4 of the CVR pack).

A further respondent stated that the original policy intent is now superseded by the Licence and the text of the relevant licence condition references 'PCB Interventions.' Where there is any conflict of meaning between documents, the order of precedence of documents is set out in paragraph 1.5 of the ED2 Price Control Financial Handbook, which states that the relevant licence conditions take precedence above all other documents.

Another respondent noted that the volume driver is calibrated using an average unit rate, and that the cost of replacing some large units can significantly exceed this rate. They noted that implementing oil testing and oil changes at a lower cost rate would help balance out these higher costs.

A final respondent believed that the decision not to include oil testing or oil changes in the scope of the volume driver may drive Distribution Network Operators (DNOs) to replace all PMTs suspected of PCB contamination, regardless of actual contamination, as this would be the only funded activity. They noted that this would be an inefficient way of

meeting the legislative requirements.

### **Our View**

We acknowledge that including oil changes and oil testing may have a role in supporting compliance with PCB legislation. However, the RIIO-ED2 Final Determination clearly established that the PCB volume driver was designed to specifically fund the replacement of PMTs that were found to contain PCBs. This decision was based on the fact that PMTs can only be tested for PCB contamination after removal from the network, creating inherent uncertainty around the volume of affected assets.

To ensure a practical and comprehensive approach for RIIO-ED2, we extended the scope of the PCB volume driver to include necessary associated asset replacements, such as poles and pole-mounted switchgear, where these replacements were a direct consequence of replacing a contaminated PMT. Furthermore, in cases where forecast load growth exceeded the capacity of a like-for-like PMT replacement, we allowed for PMTs to be replaced with Ground Mounted Transformers (GMTs). Given the uncertainty surrounding PCB contamination testing, we also removed the sunset clause, ensuring the mechanism remained for the duration of RIIO-ED2 to support ongoing compliance with PCB regulations.

We did not extend the scope of the PCB volume driver to include oil changes or oil testing, as doing so would fundamentally alter the intent of the mechanism. We remain of the view that the proposal to include these costs in Table R4 – Volume Drivers of the CVR pack is inconsistent with the original purpose of the volume driver and our established regulatory position.

Crucially, the reference to 'work undertaken' in the licence condition does not imply an open-ended scope for activity related to PCBs. The intent of the volume driver has always been to fund the necessary asset replacements rather than proactive testing or oil changes, which were never included in the cost assessment underpinning this mechanism.

This principle is further reinforced by our decision not to introduce tiered unit rates into the licence condition calculation. We determined that the variation in unit costs across different PMT ratings was not sufficiently material to justify a tiered approach.

Additionally, while associated asset replacements were included within the scope of the volume driver, we did not consider their unit costs to be significantly higher than those of PMT replacements. Notably, there was no provision for oil changes, oil testing or associated funding for these activities.

We do not think we should make the proposed changes as this would provide additional funding where a DNO (currently) overspends while leaving underspends elsewhere unchanged. It would leave the risk of higher costs being placed solely on consumers while allowing DNOs to benefit from lower costs where they arise. We do not think that adding new asset solutions to the current unit cost would be in consumers' interests.

As a result, any costs that are incurred for oil changes and oil testing will not be covered under the PCB volume driver. These expenditures will be treated as overspend and will be subject to the Totex Expenditure Sharing Mechanism, to ensure costs are appropriately allocated between network operators and consumers.

### **Annex B – S4 Totex Performance Summary Table**

Following discussions in the working groups, we explored a new cost requirement aimed at reviewing performance against an adjusted allowance that accounts for uncertainty mechanisms (i.e volume drivers, reopeners etc). While some DNOs included elements of this approach in their commentaries, the level of detail varied. As part of our engagement with the DNOs, we collaboratively developed a template for an S4 Totex Performance summary table in the CVR pack.

### **Our View**

Upon further review, we have decided to remove both Table S4 and the corresponding table in the strategic commentary. We believe that further refinement is required to ensure consistency across submissions and to better capture the impact of uncertainty mechanisms. This will help improve comparability and provide a clearer view of cost performance across networks.

To achieve this, we will work with DNOs to develop a more robust approach, drawing on the Gas Distribution framework as a reference point. Our aim is to incorporate an improved version of this reporting requirement into next year's submission.

**Electricity North West Ltd (ENWL)**  
**Northern Powergrid (Northeast) Ltd (NPgN)**  
**Northern Powergrid (Yorkshire) plc (NPgY)**  
**London Power Networks plc (LPN)**  
**South Eastern Power Networks plc (SPN)**  
**Eastern Power Networks plc (EPN)**  
**SP Distribution plc (SPD)**  
**SP Manweb plc (SPMW)**  
**Scottish Hydro Electric Power Distribution plc (SSEH)**  
**Southern Electric Power Distribution plc (SSES)**  
**National Grid Electricity Distribution (West Midlands) plc (WMID)**  
**National Grid Electricity Distribution (East Midlands) plc (EMID)**  
**National Grid Electricity Distribution (South Wales) plc (SWALES)**  
**National Grid Electricity Distribution (South West) plc (SWEST)**

(each one a “Licensee”, and together, “the Licensees”)

**Direction under paragraph C of the Standard Licence Condition 46 (Regulatory Instructions and Guidance) (“SLC 46”) of the Electricity Distribution Licence (the “Licence”) granted under section 6(1)(c) of the Electricity Act 1989 (the “Act”).**

**Whereas –**

1. The Licensee holds a Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1986 (the “Act”) and is subject to the conditions contained in the Licence.
2. 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.<sup>4</sup>
3. SLC 46 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 46.10 of SLC 46, the Authority gave notice to the Licensees on 21 February 2025 that it proposed to modify the RIGs.
4. The Notice required any representations on the proposals to be made by the Licensees on, or before, 21 March 2025.
5. Prior to the consultation period closing, the Authority received six responses. The Authority has considered the representations and has made a number of changes as part of the consultation to reflect the feedback in the responses received.

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<sup>4</sup>[RIIO-ED2 Final Determinations | Ofgem](#)

6. The modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2025<sup>5</sup> in relation to:
  - RIIO-ED2 Regulatory Instructions and Guidance: Version 2.0
  - RIIO-ED2 Regulatory Reporting template: Version 2.0
  - RIIO-ED2 Commentary: Version 2.0
7. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs specified above and published alongside this Direction.

**Now Therefore –**

8. Pursuant to Part C of SLC 46 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached accompanying letter.
9. The reason for the amendments set out in this Direction is to clarify existing reporting requirements for the licensees. Further details are contained in the Decision letter attached to this Direction.
10. The modifications will take effect on 10 April 2025.
11. The Licensees must complete and return the reporting pack referred to above as part of the 2024/25 RIGs process.

Pete Wightman  
Deputy Director  
Network Price Controls

**Duly authorised on behalf of the Authority**  
**10 April 2025**

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<sup>5</sup> We note that Distribution Network Operators are required to submit a QoS Interruptions Stage Data file by 30 April 2025, a Reinforcement Load Index file by 30 September and a QoS HV Disaggregation file by 30 November. These data submissions will utilise the modified RRP and RIGs.