



Making a positive difference
for energy consumers

To:

Electricity Transmission
Network Operators and
interested Stakeholders

Date: 10 April 2025

Dear Company Secretaries and Stakeholders,

Decision to modify the Electricity Transmission Regulatory Instructions and Guidance ("RIGs"), the Regulatory Reporting Pack ("RRP") and the Price Control Financial Model ("PCFM") Guidance for RIIO-2

We¹ are issuing a Direction under Electricity Transmission Standard Licence Condition B15 (Regulatory Instructions and Guidance) in relation to the following documents for Electricity Transmission licensees:

- RIIO-ET2 RRP data template, and
- RIIO-ET2 RIGs document.

Please find enclosed the Direction setting out the changes made pursuant to the relevant Licence Conditions.

RIGs, RRP and PCFM Guidance

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-2 objectives and hold them to account.

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

- RIIO-ET2 – Regulatory Reporting Template: Version 2.6; and
- RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.9.

¹ 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 Transmission 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 1.3 of the PCFM Guidance, and the document remains unchanged.

Decision

We have decided to make a number of modifications and minor corrections to the RIGs and to the RRP to align them with Electricity Transmission Standard Licence Condition B15.

On 21 February 2025 we published our consultation² setting out our proposed reporting templates and accompanying guidance. The consultation proposed several modifications to the RIGs and RRP. These included:

- general amendments to the template and guidance;
- amendments to the RRP pack and RIGs to support collection of cost and volume data associated with projects delivered through the Accelerated Strategic Transmission Investment (ASTI) framework; and
- temporary suspension of selected tables and elements.

We sought feedback on the form and content of the proposed changes. We received three 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

In addition to changes arising from consultation responses, we have included a small number of changes and corrections to the RRP pack and 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 template.

² <https://www.ofgem.gov.uk/consultation/notice-proposing-modifications-regulatory-instructions-and-guidance-rigs-riio-2-year-4-electricity-transmission>

Timeline

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

Yours faithfully,

Pete Wightman

Deputy Director

Price Control Operations

Duly authorised on behalf of the Authority

Appendix 1: Consultation responses and Ofgem views

We received three separate responses 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 template and guidance. These include:

- Correction of formulaic errors;
- Updates to references;
- Clarifications;
- Proposed changes, additions and removal of data input with the RRP.

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

We received a number of specific points relating to the reporting requirements. Our views in relation to these responses and any changes are set out below.

ASTI reporting

Two respondents specifically commented on the proposed inclusion of measures to incorporate ASTI reporting in the data template and RIGs document. Both believed that while increased visibility of costs, volume, and allowance information for ASTI projects under construction within the RPP template is important for a holistic view of regulatory performance assessment, the proposed expansion of the current data architecture and cost categorisation structure, primarily based on 'non-ASTI' activities reported through the current RIIO-ET2 framework, requires further refinement to achieve the intended ambition.

The respondents expressed concerns that the proposed framework would be challenging to populate with the required level of detail and in its current form, there is an inference that the current structure will provide limited information on the necessary project-by-project breakdown for regulatory performance assessment.

Both recommended that engagement should continue regarding the development of ASTI reporting in the RRP to better align with the project assessment categorisations of investments.

A third respondent noted its support for the proposed inclusion of cost and volume data associated with projects delivered through the ASTI framework. However, it did not comment on the details of the proposed reporting requirements or provide any suggestions for further development or points of clarification.

Our view: We acknowledge the central concern raised by respondents that incorporating the proposed framework in its current form may result in limited data or nil return for ASTI investments. We understand that this is driven by challenges in data categorisation (i.e. aligning them to the ASTI allowance structure as described in the licence) and a recognition of the practical difficulties of collating detailed cost information at the early stages of the investment life-cycle. Additionally, we note the concern that providing a comprehensive picture of the regulatory performance of each ASTI investment to the level of detail required by the current reporting framework poses additional challenge.

The scale and importance of ASTI investments requires their inclusion to be managed carefully to facilitate transparent and accurate reporting of costs, allowance and volume information. The inclusion must also avoid any potential negative impact on the licensees' reporting capabilities against the non-ASTI investment portfolio and ongoing regulatory activities through the RIIO-ET2 price control framework. We have therefore decided to remove the proposed ASTI reporting requirements from the data template and the RIGs.

For the avoidance of doubt, this means that the data to be submitted in July 2025 (in respect of the 2024/25 reporting year) will follow the requirements for July 2024 (in respect of the 2023/24 reporting year) and not provide any details on the performance expectations or outputs of any ASTI projects.

Further engagement is necessary to better understand the practicalities and feasibility of reporting a transparent and accurate view of regulatory cost and volume performance for each ASTI investment within the current RRP structure. To form the basis of these discussion, we invite further thoughts from each licensee by 30 May 2025 on the structural revisions necessary to increase the visibility of costs, volume, and allowance information for each ASTI investment within the RPP template. These will form the basis of further discussion between all parties to reach a consensus view. Additionally, we will seek to develop and establish a common narrative structure that allows licensees to present accurate and comprehensible picture of progress and performance against the agreed funding provision and delivery expectations in parallel. We expect the results of these discussions to form the basis of proposed modifications to be consulted on as part of the next annual update process.

Volume reporting

One respondent proposed an amendment to increase the efficiency of population and reduce the number of rows required when reporting volumetric information within the 'Scheme_C&V_Load_Actuals' and 'Scheme_C&V_NonLoad_Actuals' reporting tabs.

The proposal is to include additional columns to enable volumes to be captured against the delivery year. Currently, the delivery and energisation year is attributable to each line item, requiring each volume to be captured by corresponding line item.

Our view: We have decided against making the change at this time. Instead, we will use the suggestions as a foundation for further discussions among all parties to reach a consensus. While we acknowledge that the proposed presentational change might slightly reduce the number of rows on the C&V sheets, additional discussions are needed to ensure that the change enhances the transparency of data reporting within the RPP template, improves internal data assurance and verification processes with licensees' source data, and further reduces population error.

Temporary suspension of data reporting

Our consultation noted that in the 2024/25 regulatory year the licensees are progressing engagement on their RIIO-ET3 business plans and submission of annual RIIO-ET2 RRP in parallel. We proposed a temporary suspension to certain annual reporting requirements to reduce the administrative burden for all parties. All respondents welcomed the proposals.

Our view: We remain of the view that the temporary data reporting amendments represents a pragmatic solution that will ensure the efficiency and effectiveness of the forthcoming RRP and the RIIO-ET3 business plan processes. The suspension will be removed, and reporting will be reinstated for the 2025/26 reporting year.

Consequential costs

One respondent noted a policy decision³ and statutory consultation⁴ regarding the funding of consequential costs due to the National Electricity System Operator (NESO) function no longer being part of National Grid's shared corporate services. Specifically, the respondent provided a summary of proposed changes to the RRP template and the RIGs document to ensure that the relevant costs are accurately reported and recoverable through the forthcoming RRP submission.

Our view: We agree that change is required to include NESO consequential costs in the relevant RRP tables for spend and allowance for specific licence terms. The proposed amendments include the addition of appropriate rows to D4.4 Business Support and D4.4

³ <https://www.ofgem.gov.uk/decision/funding-national-grids-consequential-costs-separation-electricity-system-operator>

⁴ <https://www.ofgem.gov.uk/consultation/statutory-consultation-modifications-ngets-licence-relation-consequential-costs-eso-separation>

Business Support Allowances tables. The RIGs and RRP published alongside this Direction incorporate the necessary changes and provide supporting guidance.

Indirects

One respondent raised a number of queries relevant to the definition of Indirects activities, including clarifications on the reporting requirements and suggestions as to how to further rationalise the structure of the RIGs instructions. These are summarised in turn below.

Definition of indirects

The respondents believes that further rationalisation of RIGs is required to remove contradictory elements and establish the intent of the reporting requirements. The respondent provided a marked-up version of relevant sections of the RIGs for consideration.

Our view: We note that this topic has been the subject of further engagement between the respondent and our regulatory team and that progress has been made in enhancing the understanding and application of the agreed definitions related to the reporting of Indirects, and their delineation from Direct cost activities.

We also recognise the view presented that further improvements could be made to the RIGs to aid comprehension and appreciate the suggestions to streamline the Guidance text to eliminate potential ambiguities and establish a more concise form of instruction.

We have reviewed the suggestions provided.

The first point to note is that the respondent presented its proposed structural changes against a previous version of the RIGs (version 1.8), rather than the amended version that accompanied the consultation (version 1.9). After review of responses and the detail of the respondents' proposed changes, we maintain that the rationalisation amendments proposed in the consultation version improve the readability and comprehensibility of the instructions and we have decided to retain the majority of the changes on this basis. We have made further adjustments only to reflect additional points of clarification raised.

The use of an allocation process for projects not yet in delivery

The respondent observes that data provision from an 'internal Contractor Management System'⁵ currently assumes the project is in its delivery phase, i.e. with a contractor

⁵ RIGs page 129; table D4.3.

engaged and reporting actual costs for the Reporting Year. The respondent notes, however, that many projects are in a pre-delivery phase, meaning contractor costs will be forecasted and not split out in the required way in an 'internal Contractor Management System'. To address this, the respondent notes that an agreement has been reached to enable NGET to continue to utilise a proportionate allocation process for these projects and is seeking confirmation of this position.

Our view: We agree with the proposed approach being adopted for the reporting year 2024/25 in recognition of the number of projects which NGET has to report. This approach was adopted as a pragmatic and proportionate 'allocation process' in the previous reporting year (2023/24) and we consider that it can be adopted in the forthcoming submission to reflect the ongoing transitional situation. We do not consider it necessary to update the RIGs to communicate this temporary agreement.

In all cases we require an appropriate and commensurate level of intelligence to be collected by the TO's to inform what activities have been or will be undertaken and what the cost of that activity has or will be. We anticipate that any assumptions used in these attribution and allocation methodologies to be regularly reviewed to ensure they remain fit for purpose and accurately reflect the effort expended and subsequent cost attribution. It is for each licensee to demonstrate and evidence that the methodology employed is suitably justified (and remains so in the case of re-applied methods) and is subject to rigorous governance and oversight for each reporting cycle and submission.

The phasing in of reporting according to the new definition

As noted above, the respondent believes it is currently unable to fully comply with the stated requirement for data from "an internal Contract Management System" for all projects. It also believes that there is an "ongoing lack of an agreed definition" for costs associated with contractor indirect activities. The respondent is seeking confirmation that it can use the same allocation process in 2024/25 that it utilised in the previous RRP submission.

Our view: While we disagree with the view that an agreed definition is not available for reporting contractor indirects, we accept the respondent's explanation regarding the practicality and challenges of retrospectively applying reporting and definitional requirements to projects already in delivery and potentially far advanced. We agree to the transitional solution proposed for the forthcoming reporting year. Additionally, we will seek further assurances on the reporting of all projects as the respondent's system experience and data management processes mature.

All licensees have previously evidenced and demonstrated in their internal work allocation cost models their ability to take costs for activities to a far more granular level of detail than that required in the RRP and have used this granular oversight as a justification and evidence in support of their funding submissions in both business plans and reopener applications. With all forms of regulatory reporting, we continue to require licensees to provide their cost and volume information using reasonable endeavours.

Clarity of drafting

The respondent notes the view that “*multiple years of incremental changes have made the changes to the definitions for Direct & Indirect Activities in the RIGs hard to follow and unclear in intent and meaning*” and recommends “*a fundamental redrafting of the RIGs to create the necessary clarity in this area*”

Our view: We remain of the view that the definitions are clear, and note that we have engaged several times on the respondents’ concerns on areas where it believes ambiguity exists in this area of reporting.

As noted above, we have reviewed the suggestions received to streamline the Guidance text but note that the suggestions made were based on a previous version of the RIGs. The changes were developed to improve readability and comprehensibility. After review, we have decided to retain the majority of the changes, making further adjustments only to reflect additional points of clarification raised.

Changes to definitions

The respondent presented its view that identifying activities as “Very” and “Other” Closely-Associated Indirect (CAI) that are then subsequently mapped to Direct Costs is confusing. It suggests that the definitions should be renamed as “Very” and “Other” CAI and for subsequent guidance to be introduced to describe whether these activities are treated as Direct or Indirect.

Our view: We remain of the view that the RIGs consultation accurately sets out our intent regarding the “very” CAI (and “other” CAI) and the situations to which these definitions are applicable. We have undertaken a further review of the RIGs and sought to remove any potential elements of the structural form and description from the RIGs that may inhibit readability. In doing so, we have accommodated elements of the structural changes proposed by the respondent with the aim of providing further clarification and adjustments

to improve readability and comprehensibility of the guidance. We believe the decision published alongside this letter achieves our aims.

We welcome any further engagement and proposals to improve the clarity of the RIGs and many of such proposals have been incorporated into various iterations to date. We consider the RIGs to be constantly evolving and improving to better reflect the regulatory reporting needs while acknowledging the particular reporting practices and/or limitations of data collection of the licensees systems and processes.

Definition of the term 'Contractor'

The respondent requests that the term 'Contractor' needs to be defined in a way that "*should apply equally to all investment projects regardless of delivery model*" and "*be robust to a range of existing and potential future 'delivery models'*".

Our view: We note that a similar point was raised and rejected during last year's annual change process. This year's position offers no expansion on the point previously raised and addressed. Additionally, the respondent has not provided any explanation or information to clarify its understanding of how the lack of a defined term may potentially inhibit the ability of any licensee to comply with the RIGs requirements or how to resolve and mitigate these perceived issues through a suggested definition.

Our intention to improve cost reflectivity across activity definitions remains a key cornerstone of our ability to effectively interrogate and benchmark costs across the sector. This approach is designed to be agnostic to the specific contracting strategies or accounting policies employed by different TOs'.

Therefore, our view remains unchanged; we believe that the term "contractor" is commonly used and well understood. Attempting to comprehensively define this term for bespoke and limited-use instances within one business's operations may inadvertently create unintended consequences and limit our intention.

**National Grid Transmission plc
SP Transmission Limited
Scottish Hydro Electric Transmission plc**

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

Direction under paragraph 3 of Standard Condition B15 (Regulatory Instructions and Guidance) (“SC B15”) and paragraph 8.2.20 of Special Condition 8.2 (Annual Iteration Process for the ET2 Price Control Financial Model) of the Electricity Transmission Licence (the “Licence”) granted to the Licensees under section 6(1)(b) of the Electricity Act 1986 (the “Act”).

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 RIIO-ET2 Electricity Transmission Price Control - Regulatory Instructions and Guidance (the “RIGs”) and the Regulatory Reporting Pack (the “RRP”) are the primary means by which the Gas and Electricity Markets Authority (“the Authority”)⁶ directs the Licensees to provide information required by the Authority to administer the conditions of the Licence and, where not referenced in the Licence, the RIIO-ET2 Final Determinations.⁷
3. In accordance with paragraph 8 of SC B15, the Authority gave notice⁸ to the Licensees on 21 February 2025 that it proposed to modify the RIGs and RRP for RIIO-ET2.
4. The notice required any representations by licensees on the proposals to be made on, or before, 21 March 2025.
5. Prior to the consultation closing, the Authority received three representations proposing changes and clarifications to the RIGs and RRP. The Authority has considered the representations and has made a number of changes to the RIGs and RRP proposed as part of the consultation.

⁶ 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.

⁷ <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

⁸ <https://www.ofgem.gov.uk/consultation/notice-proposing-modifications-regulatory-instructions-and-guidance-rigs-riio-2-year-4-electricity-transmission>

6. The modifications refer specifically to information required to be submitted to the Authority on or before 31 July 2025 in relation to:
 - RIIO-ET2 – Regulatory Instructions and Guidance: Version 1.9; and
 - RIIO-GD2 Regulatory Reporting template: Version 2.6.
7. No updates were proposed through the consultation on version 1.3 of the Price Control Financial Model (PCFM) Guidance, and the document remains unchanged.
8. The modifications are summarised in the attached Decision letter and can be seen in the versions of the RIGs and RRP Template documents specified above and published alongside this Direction.

Now Therefore –

9. Pursuant to paragraph 3 of SC B15 of the Licence, the Authority hereby modifies the RIGs in the manner specified in the attached accompanying letter.
10. The reason for the amendments set out in this Direction is to introduce with immediate effect the new reporting requirements set out in the RIGs which will allow the Authority to track and monitor company performance against their RIIO-2 price control settlement and to ensure consistency with the principles. This decision also aligns the template and guidance with the latest special licence conditions and Price Control Financial Instruments.
11. This document constitutes notice of the Authority's reasons for the Direction as required by section 49A of the Act.
12. The modifications will take effect on 10 April 2025.
13. The Licensees must complete and return the reporting pack referred to above as part of the 2024/25 RIGs process.

Pete Wightman
Deputy Director
Price Control Operations

Duly authorised on behalf of the Authority
10 April 2025