

# RIO-ED1 electricity distribution price control – overview of the regulatory instructions and guidance

## Guidance

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### Overview:

RIO-ED1 is the price control for electricity distribution network operators (DNOs) from 1 April 2015 to 31 March 2023.

This document is part of the regulatory instructions and guidance (RIGs) for RIO-ED1. The term RIGs refers to a collection of documents – our instructions and guidance and the reporting packs and commentaries the DNOs have to fill out. The RIGs are the main way we get information from the DNOs. We need this information to administer, and check compliance with, the electricity distribution licence and RIO-ED1 final determinations.

This document outlines reporting timescales and common guidance for the DNOs to follow when submitting reporting packs and commentaries to us.

The RIGs will be used to collect actual data from 1 April 2015 to 31 March 2023. They will also be used to collect forecast data further into the future.

## Context

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RIIO-ED1 is the first electricity distribution price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The RIIO-ED1 price control review set the outputs that the 14 electricity distribution network operators (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect. RIIO-ED1 covers an eight-year period from 1 April 2015 to 31 March 2023.

The purpose of this document and its annexes is to provide a framework that DNOs are required to follow when submitting information to us.

## Reference documents

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### **RIIO-ED1 Final determinations**

[RIIO-ED1 final determinations for the slow-track electricity distribution companies](#)

[RIIO-ED1 final determinations for the four licensees owned by Western Power Distribution](#)

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# 1. Introduction

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## Background

1.1. The RIIO-ED1 price control review set the outputs that the 14 electricity distribution network operators (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect. RIIO-ED1 covers an eight-year period from 1 April 2015 to 31 March 2023.

1.2. We will monitor and evaluate the DNOs' performance over RIIO-ED1. The main reporting mechanism is the regulatory instructions and guidance (RIGs), which provide a common framework for DNOs to report relevant performance data, cost and financial information.

1.3. The RIGs specify the information we want and provide guidance on how to provide this information.

1.4. We collect this information to enable us to:

- monitor DNOs' delivery of their price control outputs and associated deliverables
- monitor the rewards and penalties the DNOs have received as a result of this performance
- monitor DNOs' delivery of wider price control commitments
- monitor compliance with licence requirements
- collect information for use in the annual iteration process<sup>1</sup>
- have visibility of the DNOs' latest forecasts on key deliverables
- inform the assessment in the next price control review.

## Legal framework

1.5. RIGs are documents associated with the electricity distribution licence. The DNOs are required to comply with them as if they were part of the licence.

1.6. Standard licence condition 46 (Regulatory Instructions and Guidance) of the electricity distribution licence sets out the scope, contents and common governance arrangements for the RIGs. The RIGs may be revised and reissued in accordance with Part C of the condition.

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<sup>1</sup> The annual iteration process uses revised price control financial model (PCFM) variable values to recalculate base revenue for each DNO.

1.7. The information a DNO provides must relate to its licensed distribution business and any affiliates or related undertakings.

1.8. Where appropriate, the specified information a DNO provides to us<sup>2</sup> must comply with the requirements under standard licence condition 45 (Data Assurance requirements). Standard licence condition 45 and its associated guidance (the data assurance guidance (DAG)) specify the information in these RIGs where the DAG requirements apply. The DAG requires the DNO to perform a risk assessment and carry out data assurance activities on the information it provides.

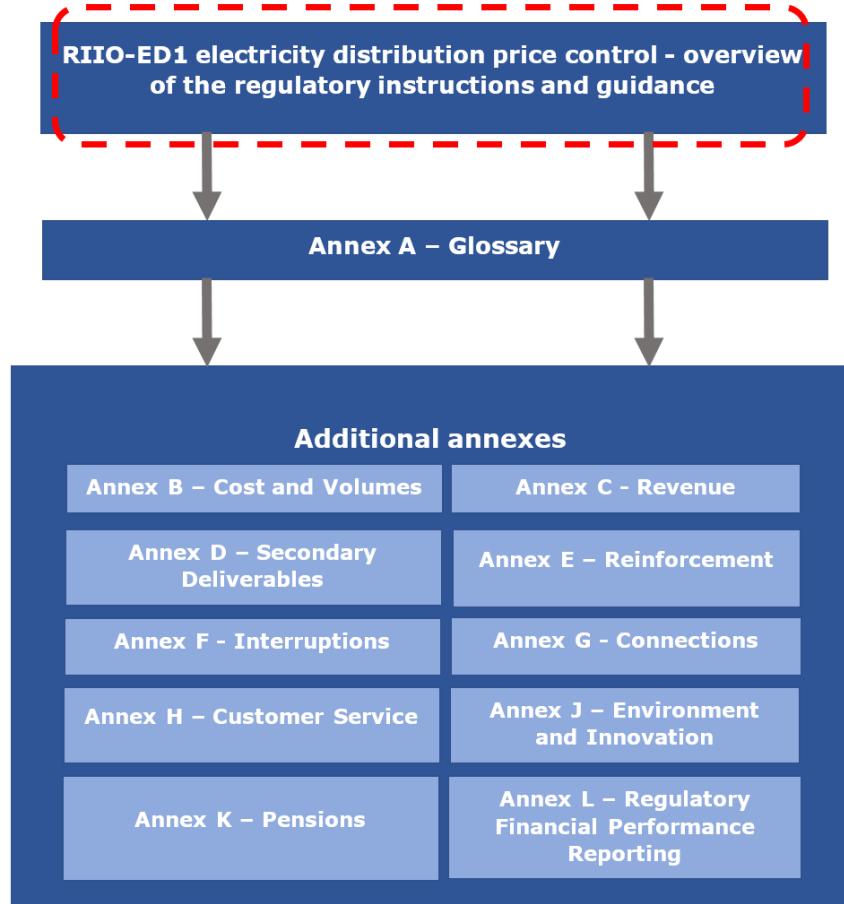
## Structure of the RIGs

1.9. Figure 1.1 shows all the instructions and guidance documents for the RIIO-ED1 RIGs. This document, circled in Figure 1.1, is an overview of the RIIO-ED1 RIGs and the DNOs' reporting requirements. There are a series of further documents providing additional instructions and guidance that DNOs must follow when submitting specified information to us. The RIGs also include reporting packs and commentaries DNOs must use to submit the information.

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<sup>2</sup> The terms the "Authority", "Ofgem", "we" and "us" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

**Figure 1.1: Map of the RIIO-ED1 instructions and guidance**



## 2. Content and submission of information

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### Overview

2.1. The RIGs comprise:

- instructions and guidance on how to report and, where applicable, derive information, including a list of definitions
- reporting packs (in Microsoft® Excel 2010) for the submission of numerical information
- commentaries for providing information to support the reporting packs.

### Form and purpose of the instructions and guidance

2.2. This document together with its annexes listed in Figure 1.1 are the instructions and guidance.

2.3. The purpose of the instructions and guidance is to provide DNOs with the information they need in order to accurately complete the reporting packs. The instructions and guidance provide, where applicable, information on:

- requirement for historical and forecast data
- reporting units
- the methodology for calculating or deriving required numbers
- the provision of the data to us (format, frequency etc.)
- any audit or examiner requirements
- reasons for the data requirement
- definitions of the terms used in the RIGs.

### Submission of completed reporting packs and commentaries

#### What is submitted and when

2.4. Information is normally provided for a regulatory year. The regulatory year for the provision of information runs from 1 April in one calendar year to 31 March in the next. For specified information, the instructions and guidance may reference a shorter time period for the recording and reporting of information.

2.5. Table 2.1 lists each annex and associated reporting pack and commentaries. Submissions are made once per year, except for Annex K – Pensions which is submitted every three years. Most data covers a regulatory year however some information covers a shorter time period, eg each month or quarter of the regulatory year. Table 2.1 specifies the period covered by each reporting pack and the submission deadline. DNOs are required to submit completed reporting packs and commentaries no later than the deadline specified.

2.6. When submitting these DNOs must ensure that any additional submission requirements outlined in the annexes have been met, eg an audit.

**Table 2.1: RIGs annexes, reporting packs, commentaries and timeframes**

Instructions and guidance annex	Reporting pack	Commentary	Period	Submission deadline
Annex B – Costs and Volumes	Costs and Volumes	Strategic	Regulatory year	31 July
Annex C – Revenue	Revenue	n/a	Regulatory year	31 July
Annex D – Secondary Deliverables	Secondary Deliverables	Secondary Deliverables	Regulatory year	31 July <sup>3</sup>
Annex E – Reinforcement	Reinforcement Load Index (LI)	Reinforcement Load Index (LI)	Regulatory year	30 September
Annex F – Interruptions	QoS Interruptions Stage Data	n/a	Regulatory year	30 April
	Guaranteed Standards of Performance	n/a	Regulatory year	31 July
	Occurrences Not Incentivised			
	QoS HV Disaggregation	n/a	Regulatory year	30 November
Annex G – Connections	Connections	Connections	Regulatory year	31 July

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<sup>3</sup> The submission date of the Secondary Deliverables for 2015/2016 is due on the 30 December 2016.

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<b>Instructions and guidance annex</b>	<b>Reporting pack</b>	<b>Commentary</b>	<b>Period</b>	<b>Submission deadline</b>
	Connections Guaranteed Standards (SLC 15A)  SLC 12 and 15	n/a	SLC15A: Quarterly, starting April to June  SLC 12: regulatory year  SLC 15: quarterly, starting April to June	31 July
Annex H – Customer Service	Customer service	n/a	Complaints and customer satisfaction – quarterly, starting April to June  Telephony – monthly	31 July
Annex J – Environment and Innovation	Environment and Innovation	Environment and Innovation	Regulatory year	31 July
Annex K – Pensions <sup>4</sup>	Triennial Pensions	<i>See appendix 2 of the Pensions RIGs</i>	-	July and September 2017, July and September 2020, July and September 2023
Annex L – RIIO Regulatory Financial Performance Reporting (RFPR) <sup>5</sup>	RFPR Template	<i>RFPR commentary</i>	Regulatory year	31 July

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<sup>4</sup> The Pension RIGs are published separately as they apply to all network companies.

<sup>5</sup> The RIIO Regulatory Financial Performance Reporting RIGs are published separately as they apply to all network companies.

## **Resubmission**

2.7. Our agreement is needed before a DNO can resubmit any RIGs information. The DNO must resubmit the relevant reporting pack (and commentary where appropriate) in full. It must provide an accompanying list of input cells it has changed, with a commentary explaining the reasons for the changes.

2.8. Where we require a DNO to resubmit RIGs information we will inform the DNO of the actions it must take and the timelines over which they must be taken.

2.9. In addition, the Revenue Reporting Pack (submitted in accordance with Annex C – Revenue) can only be resubmitted where the appropriate auditor has deemed it necessary.

## **Publication and sharing of information**

2.10. We may publish information DNOs provide us in the RIGs. This will primarily be to inform stakeholders of DNOs' performance against their price control commitments. We will not publish information that is commercially sensitive. This should not prevent DNOs from publishing any further information that their stakeholders want to see.

## 3. Instructions for completing reporting pack and commentaries

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### Overview of the reporting packs

- 3.1. DNOs must use the reporting packs when reporting specified numerical information to us as part of the RIGs. They are in Microsoft® Excel 2010. They ensure the DNOs submit data in a consistent format.
- 3.2. Below are general instructions that apply to all reporting packs. Specific instructions and guidance for completing each worksheet within the reporting packs are included in the associated annexes.

### Filling in the reporting packs

#### Overview

- 3.3. The majority of reporting packs contain the following common worksheets:
  - Navigation – provides a reference and link to each table in the reporting pack
  - Changes log – for DNOs and us to log changes that are made to the template, eg correcting an error in a formula
  - Data change log – for a DNO to record any changes that it has made to historical, and therefore previously submitted, data.
- 3.4. DNOs must not change, add or delete any cells, formulae or formatting in the reporting packs unless we have instructed DNOs to do so. For example, to correct an error or if the guidance allows for additional rows to be added.

#### Inputting values and linking

- 3.5. Cells in the worksheets are colour coded to reflect the action required. Unless otherwise stated, DNOs are required to input data in yellow cells. DNOs are only required to enter values related to the regulatory year under report, and any previous regulatory years, unless specified in the guidance, ie where forecasting is required.
- 3.6. Cells in worksheets may be linked to other cells either in the same reporting pack or another reporting pack. DNOs must retain these links. We will consider failure to do so as non-compliance with the RIGs unless we have instructed the DNO to make a change.

3.7. Where one reporting pack links to another reporting pack, DNOs must save the reporting packs on their own systems and re-establish the links to operate correctly.

3.8. Where a reportable value is zero the cell input should be zero. Where it is not applicable to the licensee, the cell should be left blank.

### **Dealing with errors in the reporting packs**

3.9. Where a DNO identifies an error in a reporting pack, eg a cell incorrectly linking to another cell, they must notify us of the error as soon as possible. If we confirm there is an error we will notify all DNOs. If there is adequate time before the submission deadline we will instruct each DNO to correct the error in the reporting pack before it is submitted. We will decide whether adequate time exists based on the materiality of the error and following consultation with DNOs. The change must be logged in the “changes log” worksheet in the relevant reporting pack.

3.10. Where we identify an error in a reporting pack we will notify all DNOs. If there is adequate time before the submission deadline we will instruct each DNO to correct the error in the reporting pack before it is submitted. We will decide whether adequate time exists based on the materiality of the error and following consultation with DNOs. The change must be logged in the “changes log” worksheet in the relevant reporting pack.

### **Complying with definitions**

3.11. Definitions are included in Annex A – Glossary. DNOs must comply with the definitions when entering data in the reporting packs. In the circumstance where no definition is given the licensee should include in explanatory notes details of the treatment it has applied and inform The Authority of the omission. DNOs should consult us for clarification where there is doubt or uncertainty. If we think that the clarification may be useful for all DNOs we will inform them via email.

### **Accounting policies**

3.12. DNOs should enter all costs on a cash basis and exclusive of atypical items except where specifically instructed to report data. On a cash basis means exclusive of all provisions and accruals and prepayments that are not incurred as part of the ordinary level of business.

3.13. A new international accounting standard, IFRS16, has been issued partway through ED1. For DNOs that report under IFRS in their statutory accounts, this means that all leases are now reported on the balance sheet as liabilities, along with an asset reflecting the right to use the asset over the lease term. The income statement now only reports the associated depreciation and interest expenses. Previously some leases would have been reported as operating leases with “in year” lease costs (eg rent and service charges) recognised in the income statement, with

no impact on the balance sheet. To avoid issues with restatement, asset recognition and different statutory accounting policies across DNOs, all costs should continue to be reported in the RIGs as they were prior to the adoption of IFRS16. This means that lease charges incurred during the year (those previously reported as operating leases) should continue to be reported as operating costs in the RRP, and any element of interest cost in lease payments reported on a statutory basis under IFRS16 is excluded from interest reported in the RFPR. The arising difference between statutory accounts and the RIGs will be reported as a reconciling item within table R3 in the RFPR ("Reconciliation to Totex").

### **Use of estimates, apportionments and allocations**

3.14. In certain circumstances DNOs may not be able to measure or record actual information. For example, forecast information or 'counterfactual' information about alternatives that were discounted. In circumstances where DNOs are not able to measure and record actual information they may estimate the information they provide in the RIGs. Where estimated data is submitted DNOs must provide the reason why the information could not be measured or recorded and the method it used to derive any estimate.

3.15. DNOs must also identify in the commentaries where they have used apportionments or allocations when completing the RIGs. Where the DNO has applied an apportionment or allocation methodology the basis of this must be kept on record and be provided in the relevant commentary. This should include a record of the systems and/or methodology used to derive the values submitted in the RIGs.

### **Accuracy of reporting**

3.16. Where appropriate, DNOs are required under standard licence condition 45 (Data Assurance requirements) to perform a risk assessment and carry out data assurance activities on specified information submitted in the RIGs. The data assurance activities carried out should ensure the accuracy of the information submitted.

### **Provision of historical data**

3.17. All historical expenditure should be input in nominal terms, ie in the prices of the year to which the data relates.

3.18. The Costs and Volumes Reporting Pack requires data to be submitted for years prior to RIIO-ED1. DNOs must provide this data in the reporting pack submitted no later than 31 July 2016.

3.19. At each submission DNOs may resubmit values included in previous submissions. Changes to historical values may be:

- Due to finding an error in the recording or reporting of information.

- To take account of a direction by us to revise allowed expenditure for smart meter roll-out costs, worst served customers and visual amenity projects. This ensures that the data in the RIGs is kept up to date and in line with figures used in the price control financial model (PCFM).<sup>6</sup>

3.20. For example, the reported expenditure on worst served customer projects will be used to calculate the input to PCFM. We may subsequently issue a direction revising these values where worst served customer projects do not deliver the required performance improvement. The reporting packs require DNOs to take account of previous directions when submitting each year.

3.21. Where a previously submitted value has been changed the DNO must notify us of this change and the reason for it by recording in the "data change log" in the relevant reporting pack.

3.22. There are further instructions and guidance on historical data in the annexes.

### **Provision of forecast data**

3.23. DNOs are required to provide forecasts in the RIGs. The purpose of requesting forecasts is to help us better understand the implementation of the price control and any changes to planned activities, and to allow us to examine the robustness of DNOs' forecasting processes over time.

3.24. Reporting of forecast expenditure should be in 2012-13 prices and include the expected impact of real price effects but not the expected impact of economy-wide inflation.<sup>7</sup>

3.25. During the RIIO-ED1 price control period we expect to extend the requirement to report forecasts for years beyond RIIO-ED1.

3.26. There are further instructions and guidance on forecast data in the relevant annexes.

3.27. In relation to re-openers, where licensees report forecast expenditure, licensees should also ensure they report the corresponding forecast allowance.

### **Overview of the commentaries**

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<sup>6</sup> The PCFM is the financial model which derives the incremental changes to base revenue (MOD) during the RIIO price control period.

<sup>7</sup> Real price effects are the changes in prices of inputs purchased, relative to economy-wide inflation. When considering the impact of real price effects DNOs should reference economy-wide inflation as measured by the retail prices index (RPI).

3.28. The purpose of commentaries is for the DNOs to provide evidence and explanation of the information they are submitting. The commentaries include specific instructions on what should be included. Not all reporting packs have associated commentaries.

3.29. DNOs that are part of one ownership group need only submit one copy of each completed commentary per group. Where the commentary varies between the DNOs in the group DNOs should make this clear.