Distribution Price Control Review 4

Historical Business Plan Questionnaire

Guidance notes and other information

50/03

June 2003

Introduction

Work has commenced on the next distribution price control review ("DPCR4") which is due to take effect in April 2005. An important aspect of the review will be to assess the historical and projected future performance of the distribution network operators (DNOs). This requires the collection of a significant amount of data from the DNOs.

Initial consultations with DNOs have determined that there is general support for:

- providing guidance in advance on the timing of major information requests, to allow DNOs to plan resources;
- splitting the information request into parts (e.g. historical and forecast);
- providing justifications for information requests;
- establishing a working group with DNOs to facilitate dialogue on financial issues including information requests; and
- sharing a draft of each major request with the DNOs in advance of formally issuing the request, to enable comments on issues such as format, availability, usefulness and cost of collection of the requested information to be taken into account.

This approach has been used in the development of this document.

The remainder of this introductory section sets out our overall objectives and approach to this DPCR4 information request which is due to be completed and submitted to Ofgem by Monday, 15 September 2003. The Historical BPQ provides guidance for completion, both in general and in respect of each table, an indication of the rationale for each request, the tables themselves and a request for further written information.

Objectives

The key objectives of the Business Plan Questionnaire and other associated information requests are to inform the DPCR4 so that sufficient, appropriate and reliable information is available to facilitate:

- an understanding of the past and future investment expenditure, decisions and policies in the context of the distribution network and planning standards;
- an understanding of the historical and forecast performance (financial and non-financial) of each DNO;
- the assessment of the historical and forecast performance of each DNO compared to its peers;
- the identification and quantification of the relative efficiency of each DNO across its peers and where appropriate other national and international comparators; and
- the identification and quantification of the historical and forecast performance (financial and non-financial) of specific activities performed by the DNO (e.g. Metering and Distributed Generation).

Information sources

Ofgem intend to utilise a variety of methods to gather the information necessary to inform the DPCR4 including:

- Regulatory Accounts – primary source of regular audited historical financial information on the performance of each DNO;
- Historical Business Plan Questionnaire ('BPQ') – primary source of periodic historical financial and non-financial information, focusing on specific areas in greater detail;
- Forecast BPQ – primary source of periodic forecast information (financial and non-financial) including various investment and operational scenarios; and

- Distributed Generation ('DG') Questionnaire – the primary source of historical and forecast information (financial and non-financial) on completed and anticipated DG projects.

It is envisaged that additional information requests will be made as and when required to ensure that informed discussions and decisions occur throughout the DPCR4 process (e.g. EHV issues). It is planned to place significant reliance on the historical information collected via the completion of the Regulatory Accounts. Accordingly it is essential that the Regulatory Accounts are submitted on a timely basis and are presented in accordance with the Regulatory Accounting Guidelines dated 22 April 2003.

This document has been prepared to provide completion guidance and context to the Historical BPQ only. The Forecast BPQ and DG Questionnaires will be dealt with in separate documents.

Cost assessment methodology

As will be identified in the first DPCR4 Consultation Paper to be issued in early July 2003, Ofgem will use the information obtained in the Historical BPQ as a key foundation in performing the cost assessment procedures identified. The four primary methods to be used to determine the efficiency and relative efficiency of each DNO are as follows:

Review of actual costs

Actual operating and capital costs incurred will be reviewed for each financial year ended 31 March 1999 to 2004 with a greater emphasis being placed on the information for the year ended 31 March 2003. Procedures to be performed will include:

- identifying 'atypical' events and considering the appropriate treatment to be applied when assessing 'efficient costs';
- identifying performance trends so that Ofgem may understand the progress of efficiency programs initiated by each DNO; and
- developing a robust and complete understanding of each DNOs financial performance for each financial year ended 31 March 1999 to 2004 so that confidence may be placed upon the integrity of the information provided.

Bottom up modelling

Bottom up modelling will be used to examine the efficiency and cost of specific activities/functions performed by each DNO. To facilitate a robust analysis this will involve:

- defining and ensuring consistency in the activities/functions to be evaluated;
- identifying the primary cost drivers associated with each selected activity/function; and
- interpreting and investigating the efficiency and costs to ensure that an appropriate conclusion is made in relation to all DNOs.

Top down modelling

Top down modelling will be used to compare and benchmark the performance of individual DNOs against other network companies. We intend to use a range of comparative analysis techniques which may include 'adjusted ordinary least squares', 'stochastic frontier analysis', and 'data envelope analysis'. To facilitate a robust analysis this will involve:

- identifying 'normalisation' adjustments that are required to ensure consistent and comparable input data is used for all DNOs;
- identifying appropriate 'cost drivers' and 'outputs' to be used in the regression analysis; and
- interpreting and investigating the results of the analysis performed to ensure that an appropriate conclusion is made in relation to all DNOs.

Review of forecast costs

Forecast operating and capital costs will be reviewed for each financial year ended 31 March 2005 to 2010. Procedures to be performed will include:

- evaluation and assessment of key assumptions underlying the forecast operating and capital costs; and
- evaluation of asset management strategies and the resultant impact on forecast operating and capital costs.

As part of the commitment to provide clarity in the DPCR4 process, where appropriate Ofgem has identified the primary cost assessment method for which the information is being requested. However it is likely that the information obtained will be used for more than one cost assessment method where it is considered relevant to facilitate the completion of the outputs identified below.

Outputs

The information obtained as part of the DPCR4 project will be used to facilitate the completion of the following:

- publication of key company specific historical and forecast financial information to facilitate the consultation process for DPCR4;
- Ofgem's efficiency study;
- projection of costs for the period of the DPCR4;
- Ofgem's financial model to determine the impact on the financial position of each DNO arising from the DPCR4 proposals;
- incentives to support the continued improvement in Quality of Supply and network resilience;
- incentives to support the development of DG in accordance with the Government objectives announced in the recent Energy White Paper; and
- a framework to support the introduction of metering competition.

Business Plan Questionnaire

The BPQ represents a key document used by Ofgem to collect selected historical and forecast financial and non-financial information for each DNO. To reduce the burden upon DNOs (both in respect to time and quantity of information requested) the information requested via the BPQ process has been separated into two distinct parts, namely:

- selected historical information, mostly for the period 1 April 2000 to 31 March 2003 (but in some cases from 1 April 1997 to 31 March 2003); and
- forecast information for the period 1 April 2003 to 31 March 2010 and as appropriate for further periods of time.

As previously identified, the forecast BPQ will require the completion of discrete investment and operational scenarios as determined by Ofgem. The objective of such scenario forecasts is to allow Ofgem to develop an understanding of the financial implications of alternative policy decisions on DPCR4 allowed revenues and the resultant financial viability of each DNO. This will require the preparation of detailed information on a base case and one or more alternative scenario(s) including assumptions on demand, DG and Quality of Supply. There will also be a sensitivity analysis.

Timetable

The indicative timetable for the completion of the various questionnaires is as follows:

Document	Date to be issued	Responses due
BPQ		
Draft historical questionnaire	11 Apr 2003	9 May 2003
Historical questionnaire	13 Jun 2003	15 Sept 2003
Draft forecast questionnaire	Late July 2003	Late Aug 2003
Forecast questionnaire	Late Sept 2003	Late Dec 2003
Distributed Generation Questionnaire		
Draft questionnaire	16 May 2003	10 June 2003
Final questionnaire	Early July 2003	Mid Sep 2003

Where considered necessary this timetable may be revised to reflect changes in the overall Price Control Review timetable.

Publication

The publication of historical and forecast financial information is an essential component in performing a transparent price control review so that it is clearly understood by all stakeholders. The publication of information obtained from the completed BPQs will provide fundamental background information to support the publication of the Ofgem financial model and final determination of allowed DPCR4 revenue.

It is Ofgem's intention, once it has considered the views of the DNO's and other interested parties, to publish the relevant BPQ data on the Ofgem website, only excluding those parts that are confidential or for which Ofgem has already agreed publication exemptions (Tables 8, 17 and the Written Responses). The DNO's should therefore carefully mark as confidential any parts of a response they do not want published and provide justification as to why publication would or might seriously and prejudicially affect their interests.

Ofgem would also like to hear the views on publication of all those with an interest in the DPCR4 including consumers and their representatives, investors and city analysts.

Correspondence

You are requested to respond to this questionnaire in an electronic format.

All correspondence is to be directed to the attention of:

Mr Carl Hetherington
Head of Regulatory Finance
Office of Gas & Electricity Markets
9 Millbank
London
SW1P 3GE
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Historical Business Plan Questionnaire

Instructions for completion

The Historical BPQ consists of Microsoft Excel 2000 spreadsheets provided in the attached 3.5″ floppy disk and email.

We strongly recommend that you perform appropriate virus scans prior to opening any Microsoft Excel files as Ofgem will not accept responsibility for virus contamination that may arise as a result of this action.

Assistance in completion of the Historical BPQ

In addition to the monthly working group meetings previously arranged, Ofgem will provide a weekly email update to all DNOs with the objective of communicating issues identified when completing the historical BPQ that have been brought to the attention of Ofgem and where appropriate recommending solutions.

Introduction

The historical BPQ has been separated into the following sections:

Regulatory information: – Requests the presentation of certain financial information necessary for Ofgem to understand the financial performance and position of each DNO.

Statistics and KPIs: – Requests the presentation of certain key statistical/KPI information necessary for Ofgem to understand the characteristics (size, use and capacity), condition and performance of the distribution network.

Expenditure: – Requests the presentation of detailed network and other expenditure to enable Ofgem to understand and evaluate the underlying performance and cost structure of each DNO.

Network capital expenditure: – Requests the presentation of detailed historical capital expenditure incurred to enable Ofgem to understand and evaluate the scope and nature of investment programs undertaken. This section also requests the presentation of historical capital expenditure on the basis of DPCR3 as described in the Regulatory Tables section of the RAGs

Written responses: – Requests written responses to specific questions that will allow Ofgem to understand and evaluate issues relevant to the performance of each DNO.

Key principles

The key principles and assumptions to be used when completing the Historical BPQ are as follows:

Distribution business

The overall objective of the Historical BPQ is to develop an understanding of the financial performance of the distribution business and accordingly the financial information presented in the Historical BPQ should be in relation to that distribution business only. De-minimis businesses are to be included where such activities form part of the licensed entity (which has been consented to by Ofgem in accordance with Standard Licence Conditions 42 & 43) in accordance with the Utilities Act 2000.

Prior to the introduction of the Utilities Act 2000 you should, where necessary, adopt allocation and attribution principles to separate the distribution business (together with the relevant de-minimis businesses) from the licensed entity on a consistent basis with the Regulatory Accounts previously submitted. The key allocation and attribution principles (including proportions & factors) used to separate the distribution business are to be identified to ensure that all DNOs are evaluated on a consistent and comparable basis.

Definitions and Accounting Principles

The accounting policies in the Regulatory Financial Statements section of the Regulatory Accounting Guidelines dated 22 April 2003 ('RAGs') should be used to prepare all tables unless it is specifically indicated that other accounting policies such as DPCR3 accounting policies (contained in the Regulatory Tables section of the RAGs) are to be used. The RAGs, in conjunction with UK Generally Accepted Accounting Principles ('UK GAAP') provide all necessary definitions and accounting principles required to complete the historical BPQ.

Accounting policies

Ofgem will rely upon the accounting policies submitted as part of the requirements to complete the Regulatory Accounts and this request to understand key accounting treatments applied by each DNO. Such accounting policies are essential to ensuring that consistent and comparable financial information is obtained for each DNO. In the event that the accounting policies applied to prepare the Historical BPQ differ from those used in the Regulatory Accounts (for some or all years) you are requested to include appropriate details (including quantification of the variance) as an attachment to your submission.

Units
Except where specifically instructed otherwise, all monetary values are to be rounded to the nearest £0.1 million.

Inflation
All financial information included in the historical BPQ is to be expressed in nominal terms only. The application of RPI to historical financial information is prohibited.

Data entry
As the BPQ is a series of Excel spreadsheets, links and formulas have been included to limit, where possible, the amount of manual data entry required. To preserve the integrity of the data and format of the BPQ the majority of cells have been 'locked' and cannot be changed. These cells have been identified via the use of 'shaded cells'. Should you identify link or formula cell errors please forward the relevant spreadsheet to Ofgem for correction.

Ofgem understands that information requested for the financial years ended 31 March 1998 to 2000 may either be unavailable or extremely difficult to obtain in the same level of detail as requested for later years. In these circumstances summarised information is requested and the detailed input cells have been 'blacked out' and do not require completion.

Sign convention
In accordance with normal accounting sign convention, financial information is to be presented in the Historical BPQ as follows:

- Profits, revenues, assets and cash inflows are to be entered as positive numbers (+ve); and
- Losses, expenses, liabilities and cash outflows are to be recorded as negative numbers (-ve).

Use of estimates / allocations
It is acknowledged that in certain circumstances financial estimates or allocations may be necessary to complete the detailed information requested in the Historical BPQ. In these circumstances the DNO should exercise reasonable judgement to apply estimation/allocation techniques to present the information requested, provide an explanation of the methodology adopted and distinctly identify the input cells affected.

Items classified as 'Other'
Unless otherwise stated, individual items classified in the 'other' category that are greater than £0.5m or 20% of the 'other' balance are to be separately described in an attachment to the applicable table. This will ensure that the nature of the expense and the rationale for its presentation is clearly understood thereby facilitating the presentation of consistent and comparable financial information.

General
To aid in the completion of this document some tables from the Regulatory Accounts for the years ended 31 March 2002 to 2003 have been duplicated and included in the Historical BPQ request.

Printing
A printing function has been established in the 'Menu' worksheet to facilitate the printing of specific groupings of spreadsheets.

Regulatory Information

Introduction

The Regulatory Information section of the Historical BPQ is designed to obtain information on the historical performance of the DNO (incorporating approved de-minimis activities). It is envisaged that this information will provide essential data to analyse, and then model the performance of each DNO. Any normalisation adjustments determined by Ofgem and/or its consultants will be reflected in the financial model and relevant details published to provide a reference point to enable the comparison and evaluation of the price control review.

Should you think that any additional regulatory information is necessary to fully understand the historical performance please include this information in an appendix to your submission.

The following table provides guidance and clarification on how to complete each schedule in this section and identifies the purpose of the information request.

Table Reference	Instructions for completion	Purpose
Table 1. – Profit and Loss Account	All profit and loss financial information presented is to be in relation to: ▪ each year ended 31 March 2001 to 2003 and is to be consistent with the information previously presented in the Regulatory Accounts; and ▪ the Distribution business, incorporating de-minimis activities, where such activities have been approved under Standard Licence Conditions 42 & 43. As the separation of the Supply business from the Distribution business may not have occurred until 1 October 2001, the revenues and expenses of the Distribution business (and on-going de-minimis activities) are to be determined by applying the allocation and attribution principles previously used to prepare the Regulatory Accounts for the financial years ended 31 March 2001 and 2002. The principles established in the RAGs are to be used where additional guidance is required. The allocation and attribution principles adopted are to be identified and separately documented. The separate identification of Tax expense on ordinary activities, Net finance costs and Dividends declared/paid is not required for the year ended 31 March 2001.	The Profit and Loss Account provides a summary of the historical performance of the distribution business. Although the information requested is the same as that previously provided by the Regulatory Accounts, the BPQ requests additional information for the year ended 31 March 2001 and will be used as a consistency check within the BPQ.

Table Reference	Instructions for completion	Purpose
Table 2A. – Analysis of Turnover	Table 1 – Profit and Loss Account requests the presentation of 'Total Turnover' and 'Other Income' information in aggregate. Table 2A requests the presentation of 'Total Turnover' and 'Other Income' be separated into its components in a format consistent with Table 5 'Detailed Analysis of Turnover' of the Regulatory Accounts for each year ended 31 March 1998 to 2003. Descriptions are required to identify the nature of other income received. This is to disclose and quantify, at a minimum, the source of the income received (i.e. related parties/external) and the nature of the services being provided.	The presentation of the key components of historical turnover provides information to facilitate a detailed understanding of historical revenue. This, together with other supporting information, will be used to evaluate whether the scope of services subject to a price control is appropriate and consistent with recent policy initiatives and, if necessary, will collect preliminary information to inform future discussions on the regulation of turnover. This information will also provide comparative data to present alongside the DPCR4 forecasts allowing all stakeholders to appreciate the modelled impact of Price Control proposals.
Table 2B. – Detailed Analysis of Turnover	Table 2A – Analysis of Turnover requests the presentation of 'Total Turnover' and 'Other Income' in the Regulatory Accounts format. Table 2B requests 'Total Turnover' be analysed in greater detail by separately identifying revenue attributable to metering services (i.e. MAP and MoP revenue). Where necessary MAP and MoP turnover is to be separately identified from other turnover by applying the allocation/attribution principles identified in the RAGs. In these circumstances the allocation/attribution principles are to be documented. As MAP and MoP activities have only recently been separated you are not required to analyse turnover in greater detail for the years ended 31 March 1998 to 2000.	The identification of the turnover attributable to metering services will provide background information to inform the consultation process for the potential development of a separate price control for metering services.
Table 3. – Summary of Operating Costs (DPCR3 Accounting Polices)	Table 3 requests a summary of the operating expenses incurred by the DNO for the years ended 31 March 1998 to 2003. **In completing this table the accounting policies used in DPCR3 are to be applied. Each DPCR3 accounting policy adjustment is to be separately identified and presented according to the impact on either Cost of Sales or Operating Costs. The DPCR3 accounting policy adjustments identified and defined in the RAGs are:** ▪ **Line and cable repairs;** ▪ **Small tools and equipment;** ▪ **Meter re-certification;** ▪ **Non-operational capital expenditure;** ▪ **Provisions on a cash basis;** ▪ **Stranded asset disposals; and** ▪ **Margin on recharges.**	The presentation of a summary of the operating expenses incurred for the years ended 31 March 1998 to 2003 in accordance with the accounting policies used in DPCR3 will facilitate an understanding of the performance of each DNO compared to the forecasts made in DPCR3.

Table Reference	Instructions for completion	Purpose
Table 3. – Summary of Operating Costs (DPCR3 Accounting Polices) (Continued)	As the separation of the Supply business from the Distribution business may not have occurred until 1 October 2001, the expenses of the Distribution business (and on-going de-minimis activities) are to be determined by applying the allocation and attribution principles previously used to prepare the Regulatory Accounts for the financial years ended 31 March 1998 to 2002. The allocation and attribution principles adopted are to be identified and separately documented.	
Table 4. – Tax reconciliation	Table 4 requests a reconciliation of UK corporation tax (at 30%) to the actual tax expense incurred (Table 1 – line item 'Tax expense on ordinary activities') for the year ended 31 March 2003. This reconciliation requires the identification of all reconciling items greater than £500k that affect the actual tax expense incurred. Supporting information (e.g. tax fixed asset reconciliations) is to be included when completing this schedule. You are also requested to quantify tax (payments)/refunds that have occurred during the year ended 31 March 2003. Where the tax year end concludes on a date other than 31 Mar (e.g. 31 Dec), the tax calculation is to be rolled forward so that tax expense for the year to 31 March 2003 is presented in its component parts.	The reconciliation of UK corporation tax at 30% to actual corporation tax expense provides essential information to: ▪ identify the underlying average tax rate for the DNO; ▪ identify those factors giving rise to variances in actual tax expense compared to the UK corporation tax rate; ▪ inform Ofgem's assessment of the validity of historical average tax rate assumptions; and ▪ inform discussions on the appropriate taxation assumptions for DPCR4.
Table 5. – Balance Sheet	All balance sheet information presented is to be in relation to: ▪ each year ended 31 March 2001 to 2003 and is to be consistent with that previously presented in the Regulatory Accounts; and ▪ the Distribution business, incorporating de-minimis activities, where such activities have been approved under Standard Licence Conditions 42 & 43. As the separation of the Supply business from the Distribution business may not have occurred until 1 October 2001, the financial position of the Distribution business (and on-going de-minimis activities) are to be determined as at 31 March 2001 by applying the allocation and attribution principles previously used to prepare the Regulatory Accounts. The separate identification of Capital and Reserves is not required for the year ended 31 March 2001 with the necessary balancing item to be allocated to the line 'Group Funding (before the introduction of the Utilities Act 2000)'.	The balance sheet provides a summary of the historical financial position of the DNO. Although the information requested is broadly consistent with that previously provided by the Regulatory Accounts, the BPQ includes additional balance sheet categories and requests information for the year ended 31 March 2001. This information will be used as a consistency check within the BPQ.

Table Reference	Instructions for completion	Purpose
Table 5. – Balance Sheet (Continued)	All other financial issues are to be determined in accordance with the RAGs. The allocation and attribution principles applied are to be separately identified and documented.	
Table 6A. – Analysis of Accruals	Table 5 – Balance Sheet requests the presentation of other creditors in aggregate. Table 6A requests the identification of individual revenue accruals greater than £0.5m for the year ended 31 March 2003. Sufficient additional information is to be included to enable Ofgem to understand the nature and purpose of each accrual presented. Capital accruals are to be presented in aggregate (where this information is available).	**Cost assessment: Review of actual costs** Table 6A will provide information to assess whether any large or unusual items exist that may require further investigation for the purpose of determining 'normalised' expenditure.
Table 6B. – Analysis of Provisions (excluding deferred taxation and pension deficits)	Table 5 – Balance Sheet requests the presentation of other provisions in aggregate. Table 6B requests the identification of individual provisions (excluding provisions associated with deferred taxation and pensions) greater than £0.5m for the year ended 31 March 2003 (consistent with Table 10 'Analysis of provisions' of the Regulatory Accounts). Sufficient additional information is to be included to enable Ofgem to understand the nature and purpose of each provision presented.	**Cost assessment: Review of actual costs** Table 6B will provide information to assess whether any large or unusual items exist that may require further investigation for the purpose of determining 'normalised' expenditure.
Table 7. – Summary analysis of Borrowings	Table 5 – Balance Sheet requests the presentation of borrowings in aggregate. Table 7 presents summarised details of borrowings (from Table 8. – Detailed Analysis of Borrowings) as at 31 March 2003. When presenting the summarised borrowing information the following instructions apply: ▪ the weighted average interest rate for fixed and floating borrowings is to be calculated after incorporating any general or specific derivative instruments applicable; ▪ the average maturity profile of borrowings by fixed and floating interest rate is to be calculated after incorporating any general or specific derivative instruments applicable; and ▪ the counter party providing the borrowings is to be identified as either an external party or a related party. A related party is given the same meaning as that defined in the RAGs.	**Cost assessment: Review of actual costs** The analysis of borrowings as at 31 March 2003 will provide essential information to: ▪ inform, at the earliest opportunity, discussions on the appropriate gearing and interest rate assumptions for the DPCR4 (including an allowance, if any, for embedded debt); and ▪ provide a base for modelling future borrowing costs.

Table Reference	Instructions for completion	Purpose
Table 7. – Summary analysis of Borrowings (Continued)	In addition to presenting summarised borrowings information you are requested to identify Group/Related Party borrowings that are secured by or used to finance (in whole or in part) the operations of the DNO.	
Table 8. – Detailed analysis of Borrowings	Table 7 – Summary analysis of Borrowings presents aggregated information. Table 8 requests the presentation of the individual components of borrowings and available facilities as at 31 March 2003. The following information is to be presented: ▪ the amount, interest/coupon rate and maturity date; ▪ the interest/coupon rate terms and conditions including reset dates and/or conditions (e.g. an example of an interest rate condition might be: LIBOR + 2% provided the company maintains a BBB credit rating; should the credit rating fall below BBB the interest rate resets to LIBOR + 4%); ▪ the security offered (if any), repayment triggers, terms and conditions; ▪ details of derivative instruments (either specific or general) purchased to hedge a line of credit/borrowing (including transaction costs where appropriate); ▪ the realised/unrealised gains and losses arising on derivative instruments outstanding as at 31 March 2003; and ▪ any additional information necessary to understand the financing structure adopted by the DNO.	**Cost assessment: Review of actual costs** Detailed information in respect to borrowings and available facilities provides supporting information to inform DPCR4 discussions, particularly in relation to assessing the appropriate gearing and financing DPCR4 assumptions.
Table 9. – Pension liability in accordance with FRS 17	Table 9 requests detailed information in relation to **each** defined benefit pension scheme that the DNO has a legal responsibility or liability to make contributions to for the years ended 31 March 2001 to 2003. ***Information in relation to each defined benefit pension scheme for the year ended 31 March 2001 is only required if FRS 17 was adopted for that year.*** Consistent with the disclosure requirements of FRS 17, all key assumptions used to determine the actuarial valuation of each scheme is to be documented. Where the scheme valuation has been performed at a date other than 31 March it is necessary to roll forward the scheme valuation to 31 March.	**Cost assessment: Review of actual costs** The introduction of FRS 17 – Retirement Benefits together with the recent reductions in the value of domestic and international equities may give rise to funding deficits in defined benefit pension schemes. Requirements to increase contributions to pension plans have the potential to significantly affect DPCR4 forecast expenditure requirements.

Table Reference	Instructions for completion	Purpose
Table 9. – Pension liability in accordance with FRS 17 (Continued)	Where the DNO is unable to identify its share of the pension schemes assets and liabilities on a consistent and reasonable basis then the FRS 17 information is to be presented for the whole of the scheme and the actual contributions paid by the DNO in relation to its share of liabilities separately identified. Where the DNO has elected to present information for the whole scheme an explanation as to why it is unable to separately identify its share of the pension scheme assets and liabilities on a reasonable basis is also to be provided.	Sufficient background information is essential so that informed discussions and decisions can be made in relation to DPCR4 forecast expenditure requirements. The key background information obtained will assist in identifying: ▪ consistent and comparable pension scheme information; and ▪ the pension scheme surplus/deficit attributable to the first time application of FRS 17 – Retirement Benefits. Ofgem will use the results of the full actuarial valuation of the ESPS pension fund due in 2004 to finalise the assessment of forecast expenditure requirements necessary to fund pension deficits (if applicable). In conjunction with this approach it is likely that Ofgem will issue a separate information request to obtain additional pension scheme information in due course.
Table 10. – Pension liability in accordance with SSAP 24	Table 10 requests detailed information in relation to **each** defined benefit pension scheme that the DNO has a legal responsibility to make contributions to for each year ended 31 March 1998 to 2001. Such schemes are to be valued in accordance with the accounting standard SSAP 24 – Accounting for Pension Costs. Consistent with the disclosure requirements of SSAP 24, all key assumptions used to determine the actuarial valuation of each scheme is to be documented. Where the scheme valuation has been performed at a date other than 31 March it is necessary to roll forward the scheme valuation to 31 March. Where the underlying SSAP 24 assumptions have varied during the period 31 March 1998 to 2001 you are required to document and quantify the impact on the valuation of the scheme in your submission. ***Where information in relation to each defined benefit pension scheme for the year ended 31 March 2001 has been provided in Table 9 – 'Pension liability in accordance with FRS 17', you are not required to complete the column for the year ended 31 March 2001 in this table.***	**Cost assessment: Review of actual costs** It is acknowledged that this table requests disclosure in excess of that required by SSAP 24, however Ofgem think that this information is necessary to ensure that DNOs are evaluated on a consistent and comparable basis. The level of detail requested is broadly consistent with the information requested in Table 9 – Pension liability in accordance with FRS 17 and will provide essential information (as discussed above) to inform discussion and decisions for the DPCR4.

Table Reference	Instructions for completion	Purpose
Table 11. – Cashflow statement and Funds from Operations	Table 11 requires the presentation of the Cashflow statement and associated reconciliation notes ('Reconciliation to net (debt)/cash' and 'Reconciliation of operating profit before interest and corporation tax to Funds from Operations after capital expenditure') for the years ended 31 March 2001 to 2003. As a result of the introduction of the Utilities Act 2000, you are not required to complete some information (as indicated) for the year ended 31 March 2001. Where you think additional factors exist that are essential in understanding the underlying Funds from Operations available to the DNO, additional information is to be included (e.g. this may include the impact of securitisation programs and other cashflow management programs implemented).	Understanding the ability of each DNO to generate Funds from Operations provides strong evidence to evaluate the performance of the DNO during the current price control period (2000 to 2005). This information will also provide comparative data to present alongside the DPCR4 forecasts allowing all stakeholders to appreciate the modelled impact of Price Control proposals.

Statistics and KPIs

Introduction

The Statistics and KPI information section of the Historical BPQ is designed to obtain information on the characteristics, condition and performance of the distribution network. This information will support the assessment of efficiency, review of actual costs, bottom up modelling and facilitate any benchmarking performed for each DNO. Should you think that any additional Statistical/KPI information is necessary to fully understand the characteristics, condition and performance of the distribution network please include this information in an appendix to your submission.

The following table provides guidance and clarification on how to complete each schedule in this section and identifies the purpose of the information request.

Table Reference	Instructions for completion	Purpose
Table 12. – Network Development Statistics	Table 12 requests quantitative statistical information to reconcile the development of the network for the financial years ended 31 March 2001 to 2003. The reconciliation is to present key statistical information such as length of line/number of transformers etc. arising from changes in the network. The infrastructure requirements/disposals are to be allocated to the categories provided based on the primary reason for the change. For example: ▪ where a new length of line and associated infrastructure was constructed to support the connection of a housing development then the infrastructure added is to be allocated to the applicable categories in the 'Load related - demand' column; or ▪ where a section of the network became life expired and was replaced, the infrastructure added to the network is to be recorded in the 'Non-load related - Other category' and the infrastructure removed from the network (representing the network being replaced) is to be recorded as a disposal in the 'Non-load related' category. It is acknowledged that estimation/allocation techniques may be required to complete this table in the detail required. The definitions for each asset category and expenditure classification are provided in the RAGs. Please include any additional information that you consider necessary to explain the context of the development of the network (e.g. storms/foot and mouth etc.).	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Quantitative statistical information on the distribution network will be used to develop an understanding of how the network is being developed, including the underlying reasons for historical capital expenditure. This information, together with cost information will facilitate, amongst other things, the evaluation of network capital expenditure to: ▪ provide an indication of the relative efficiency of capital expenditure incurred; ▪ benchmark expenditure incurred for specified network development activities for the purpose of informing DPCR4 forecasts; and ▪ model network expenditure. It is acknowledged that the results from benchmarking procedures may be distorted by DNO specific events or circumstances. Where this may be the case it is the responsibility of each DNO to provide sufficient additional information so that potential distortion is minimised.

Table Reference	Instructions for completion	Purpose
Table 12. – Network Development Statistics (Continued)	The category 'Other disposals' is to include only disposals of network infrastructure **not** arising because of the replacement of life expired assets or the physical repair of faults and may include 'load related' assets. Where 'other disposals' represent a material change in the network additional information is to be included to facilitate Ofgem's understanding of the disposal event(s).	
Table 13. – Asset Age Profile	This schedule requests the identification of the initial installation date of key components of the distribution network as at 31 March 2003 (or an alternatively specified date as close to 31 March 2003 as possible) in accordance with the categories provided. Assets are to be separately identified and presented based on the ***design*** specifications and not on the current operating specifications (i.e. parts of the EHV network may have a ***design*** specification of 275kV but are currently ***operating*** at 132kV). The definitions of each broad asset category can be found in the RAGs. DNO specific asset categories are to be described and presented in the 'other' categories available. You are requested to separately identify the number and age of indoor and outdoor EHV switchgear units as it has been determined that a significant difference in asset life exists. Should you think that similar differences exist for LV and HV switchgear units please provide additional information to separately identify the number and age of indoor and outdoor units.	**Cost assessment: Bottom up modelling** Network age profiles will be used to facilitate the parallel development of a Network Asset Management model for Ofgem. This model will be used to: ▪ assist in understanding the relationship between replacement expenditure and expenditure incurred on repairs & maintenance; ▪ understand the impact of the current asset management policy used by each DNO; ▪ evaluate the replacement and demand capital expenditure forecasts submitted by DNOs; and ▪ perform scenario analysis on differing expenditure levels.
Table 14. – Average Unit Costs	This table requests you to estimate the average unit cost of key components of the distribution network in accordance with the categories provided for the year ended 31 March 2003. The total average unit cost is to be determined by dividing the total capital expenditure additions (sourced from Table 25. – Detailed breakdown of capital expenditure additions) by Network development additions (sourced from Table 12A. Network Development statistics) for each category of assets requested. The total average unit cost per category of assets is to be analysed in further detail such that the components of expenditure (materials, employee expenditure, overheads and other expenditure) are separately identified (refer below for definitions). If the average unit cost identified for each category of assets is not reflective of a 'normal' unit cost please include sufficient additional information/explanations so that Ofgem is able to understand what represents a 'normal' average unit cost. The additional information is to include detailed financial explanations where appropriate.	**Cost assessment: Bottom up modelling** Average unit cost information will be used as a reference to populate the network asset management model identified above. In addition, this information will facilitate the comparison of network expenditure incurred across all DNOs.

Table Reference	Instructions for completion	Purpose
Table 14. – Average Unit Costs (Continued)	Please note that the average unit cost of switchgear is to include all applicable 'protection' equipment. ***Please note that the average unit cost is to be presented in pounds. Rounding to the nearest £0.1m is not to be applied.*** The components of expenditure that comprise the average unit cost are: **Material expenditure:** All direct expenditure incurred to acquire the applicable network asset. Where the supplier has been contracted to build the network on a 'turn-key' basis the total project cost is to be allocated to this category. **Employee expenditure:** All direct employee expenditure and on-costs incurred to construct and install the applicable network asset so that it is available for use. **Overheads capitalised:** All direct and indirect overhead costs associated with either the acquisition or installation of the applicable network asset. **Other expenditure:** Any other costs incurred to acquire and install the applicable network asset into the distribution network.	
Table 15. – Additional statistics	This table requests additional statistical information about the characteristics of the network for the years ended 31 March 1998 to 2003. The characteristics requested are as follows: **Circuit length:** Circuit length (as defined by the Information and Incentives Project) is to be identified in kilometres for each of the LV, HV and EHV networks. The voltage levels applicable for the LV, HV and EHV networks are defined by the Information and Incentives Project. **Customers:** Customer numbers are to be separately presented based on the voltage level of the network where they are connected (i.e. LV, HV or EHV) as at 30 September (unless otherwise indicated).	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** The additional statistical information requested will be used by Ofgem, in conjunction with various other information surveys being conducted to support DPCR4 (e.g. DG and Quality of Supply surveys), to develop a greater understanding of the network owned by each DNO.

Table Reference	Instructions for completion	Purpose
Table 15. – Additional statistics (Continued)	**Units distributed:** Units distributed are to be separately presented by tariff category (i.e. LV1, LV2, LV3, HV, and EHV). **Generation units distributed:** Generation units distributed are to be separately presented based on the number of units sourced from generators embedded within the Distribution Service Area. This is to include units consumed within, and units exported from the Distribution Service Area. **Capacity connected – Generation:** Capacity connected - Generation is to identify the gross amount of generation capacity connected at each network voltage level. **Capacity connected – Load:** Capacity connected - Load is to identify the maximum gross load recorded during the year at each network voltage level at the time of system maximum demand.	

Expenditure

Introduction

The Expenditure information section of the Historical BPQ is designed to obtain detailed financial expenditure information for each DNO. Ofgem is planning to place emphasis in DPCR4 on understanding the total expenditure incurred by type/category and purpose as this has the potential to mitigate the impact of differing accounting policies or operational structures utilised by DNOs. It is envisaged that this information will support the analysis of underlying historical efficiencies achieved and, together with information provided from other sources, provide a robust and consistent method of analysing the relative performance of an individual DNO compared to its peers.

Should you think that any additional information is necessary to fully appreciate the expenditure incurred please include this in an appendix to your submission.

The following table provides guidance and clarification on how to complete each schedule in this section and identifies the purpose of the information request.

Table Reference	Instructions for completion	Purpose
Table 16. – Expenditure Summary	Table 16 requests the presentation of total gross expenditure incurred for each year ended 31 March 2001 to 2003. Gross expenditure is to be accumulated based on its type/category (i.e. NGC exit charges, Employee wages and on-costs etc.) and presented on the basis of how the expenditure was classified in the Regulatory Accounts (i.e. Cost of Sales, Load related operational capital expenditure etc.). **Types/categories of expenditure:** The types/categories of expenditure are based on the categories identified in Table 11 'Summary Activity Analysis' of the Regulatory Accounts. Where individual items of direct expenditure recorded as 'other' expenditure exceed £0.5m additional categories are to be included. Please note that NTR costs represent a function and accordingly are not identified in a separate category. The expenditure comprising NTR costs is to be classified as 'Cost of Sales' expenditure. **Classification of expenditure** Expenditure incurred is to be classified in the categories of Cost of Sales, Operating costs, Load related operational capital expenditure, Non-load related operational capital expenditure and Non-operational capital expenditure in accordance with the classification adopted for the presentation of the Regulatory Accounts. Please note that as the table presents expenditure information all figures to be presented are to be entered as negative (–ve) numbers.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** The objective of collecting total expenditure information by category is to establish a consistent and comparable basis for evaluating the historical financial performance of each DNO, both over time and compared to other DNOs. By collecting total expenditure information emphasis is placed on the efficiency of total expenditure thereby limiting the impact on operating and capital expenditure that may result from differing DNO accounting policies. It is envisaged that total expenditure information will: ▪ facilitate the identification of expenditure savings achieved; ▪ enable management to provide clear and focused commentary to explain the actual performance of the DNO;

Table Reference	Instructions for completion	Purpose
Table 16. – Expenditure Summary (Continued)	**Direct costs incurred:** Represents expenditure directly incurred for the provision of goods or services. Direct costs are to be presented in the applicable expenditure type/category based upon the ***'nature'*** of the costs incurred (i.e. all employee expenses are to be allocated to the employee wages and on-costs category). ***Accumulating and presenting expenditure based on a 'function' is prohibited.*** **Overheads allocated:** The categories identified as 'Direct overhead and other allocations' and 'Indirect overhead and other allocations' are to be completed where expenditure is directly/indirectly allocated (as opposed to being directly incurred) to a classification of expenditure. This is to be performed/presented as follows: ▪ direct/indirect overheads to be allocated will be recorded initially as operating costs (e.g. all employee wages and on-costs not directly attributable to the cost of sales/capital expenditure are to be initially recorded as an operating cost). ▪ if management determine that an item of expenditure is an overhead and is to be allocated to Cost of Sales/Capital expenditure (e.g. 'Load related operational capital expenditure') the following adjustment is to be recorded: ▪ a reduction in operating costs incurred (classified as either a direct or indirect overhead); and ▪ an equal but opposite increase in 'Load related operational capital expenditure'. ▪ the resultant impact of this adjustment will always be £Nil (i.e. the 'Total' column for direct and indirect overheads should always be £Nil). (Continuing the above example, if the accounting policies adopted by the DNO result in some employee expenses and on-costs being classified as direct overheads that are to be allocated to capital expenditure (e.g. Planning department wages) then a positive (+ve) adjustment is to be recorded in the operating costs column (in the indirect overheads line) and a corresponding equal but opposite adjustment recorded in the 'Load related operational capital expenditure' column (in the indirect overheads line). **Reconciliation with other tables in the Historical BPQ** After determining and presenting the 'overheads allocated' to the applicable categories of expenditure the following reconciliations will be possible: ▪ Cost of Sales to agree to Table 3, Line 'Total cost of sales (pre DPCR3 accounting policy adjustments)';	▪ provide the base financial information upon which normalisation adjustments may be performed; and ▪ facilitate the identification of potential areas for additional efficiency savings to be achieved.

Table Reference	Instructions for completion	Purpose
Table 16. – Expenditure Summary (Continued)	**Reconciliation with other tables in the Historical BPQ (Continued)** ▪ Operating costs to agree to Table 3, Line 'Total operating costs (pre DPCR3 accounting policy adjustments)'; ▪ Load related operational capital expenditure (a -ve number) is to agree to Table 26, Line 'Sub-total – Gross Operational capex' (a +ve number) for the total of the Load related column; ▪ Non-load related capital expenditure (a -ve number) is to agree to Table 26, Line 'Sub-total – Gross Operational capex' (a +ve number) for the total of the Non-load related column; and ▪ Non-operational capital expenditure (a -ve number) is to agree to Table 26, Line 'Sub-total Gross Non-operational capex' (a +ve number) for the Non operational column.	
Table 17. – Related Party Expenditure	Table 17 expands upon the information collected in the Regulatory Accounts to analyse transactions with Group/Related Parties by the category of expenditure in a consistent format to Table 16 for the years ended 31 March 2002 to 2003. In determining the components of actual expenditure incurred by the Group/Related Parties, the principles identified and applied to prepare and present the information in Table 16. – Expenditure Summary are to be used. This table is subject to a de-minimis limit of £1.0m.	**Cost assessment: Review of actual costs / Top down modelling** Analysis of Group/Related Party transactions by expenditure category provides information to evaluate the relative efficiency of DNOs on a consistent and comparable basis irrespective of the outsourcing or capitalisation policies adopted.
Table 18. – Analysis of Employee Costs	Table 18 requests you to identify all employee related expenditure incurred by the DNO for the years ending 31 March 2001 to 2003. The total employee cost, which is to reconcile to the total of the line 'Employee wages and on-costs' in Table 16, is to be analysed and presented as follows: ▪ the nature of the expenditure incurred; and ▪ how the employee cost has been allocated between the selected categories presented for cost of sales, operating expenses and capital expenditure.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Employee costs may represent a significant proportion of the total expenditure incurred by DNOs in constructing, operating and maintaining the network. Accordingly it is essential to develop an understanding of the employee structure and related remuneration to support Ofgem's analysis of cost efficiency.

Table Reference	Instructions for completion	Purpose
Table 18. – Analysis of Employee Costs (Continued)	To provide context to the employee related expenditure you are requested to identify the average number of full time equivalent (FTE) employees (as defined in the RAGs). FTE employees are to be presented as follows: ▪ by position. The average number of employees from Group/Related Parties that provide services to the DNO (in addition to Internal Employees) is also to be presented. This may be calculated by applying the allocation/attribution principles identified in the RAGs. ▪ by expenditure classification. The average number of DNO and allocated/attributed Group/Related Party FTE employees is also to be allocated to a category of expenditure (cost of sales, operating expenses and capital expenditure) based on the employee related expenditure classification. That is, if employee related expenditure has been allocated to Cost of Sales – 'Non-trading rechargables', you are to estimate the number of FTE DNO or Group/Related party employees responsible for that expenditure.	
Table 19. – Summary Activity Analysis	Table 19 requests the presentation of operating costs and capital expenditure by the activities determined in the RAGs for the years 31 March 2002 to 2003. The information to complete this table is to be sourced from 'Table 11. – Summary Activity Analysis' in the Regulatory Accounts.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** The summary activity analysis provides a basis for Ofgem to understand the operating and capital expenditure costs associated with common discrete elements of each DNO. This information, in conjunction with information from other sources, will be used to assist in assessing the relative efficiency of key activities common to all DNOs.
Table 20. – Repairs and Maintenance Expenditure (by asset type)	Table 20 requests that ***actual operating expenditure*** incurred to repair and maintain the distribution network be identified and presented for the years ended 31 March 2001 to 2003. This expenditure is to be presented: ▪ by type of network asset; and ▪ by the key activities/functions identified. It is acknowledged that it may be necessary to estimate/allocate the expenditure incurred to present R&M expenditure in the format requested.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Expenditure incurred to repair and maintain the network is a significant proportion of operating expenditure incurred. Accordingly it is essential that Ofgem develop an understanding of the repairs and maintenance costs incurred by key activity and the associated potential cost drivers so that informed DPCR4 discussion and decisions can be made.

Table Reference	Instructions for completion	Purpose
Table 20. – Repairs and Maintenance Expenditure (by type/category of network asset) (Continued)	The operating expenditure presented is to represent the ***direct costs only***. ***Indirect costs*** are to be separately identified and presented in the 'Overheads allocated' categories located at the bottom of the table. Each of the activities is defined as follows: **Physical faults** Operating expenditure incurred to restore network supply that involves the replacement of a physical item on the network. **Non-physical faults** Operating expenditure incurred to restore network supply that ***does not*** involve the replacement of a physical item on the network. **Inspection activity** Operating expenditure incurred to monitor the performance and/or condition of the network. **Tower painting** Operating expenditure incurred to protect and maintain the estimated useful life of the distribution network towers and poles via the use of paint. **Tree cutting** Operating expenditure incurred as part of a defined preventative maintenance/fault protection plan to establish and maintain a certain separation between the distribution network and trees. **Other R&M** All other operating expenditure incurred to maintain and repair the distribution network not specifically attributable to any of the activities identified above. **Total R&M expenditure** The Total R&M expenditure (including direct expenditure incurred and overheads allocated) is to agree with that previously presented in Table 8 'Analysis of repairs and maintenance expenditure' of the Regulatory Accounts and Table 21 'Selected Network Activity Analysis' in the Historical BPQ for the same activities. By definition, no expenditure capitalised as part of Fixed Assets is to be included. **Boundary between activities** It is thought that the boundary between each of the R&M activities identified above is relatively clear, however should you identify a specific issue please explain the issue with the boundary in question and quantify the potential impact.	

Table Reference	Instructions for completion	Purpose
Table 21. – Selected Network Activity Analysis	Table 21 requests that you present the type/category of expenditure incurred by the activities identified for the years ended 31 March 2001 to 2003. The activity categories requested have been sourced from Table 20 (for repairs and maintenance activities) and two additional categories (identified below) have been added so that the Total Operating Expenditure of all activities will reconcile to Table 16. Key statistical information in relation to each activity is also requested. In presenting the type/category of expenditure incurred the principles identified in Table 16 are to be applied (i.e. only those ***direct costs*** are to be separately presented). All ***indirect costs*** are to be presented in the applicable 'Overheads allocated' categories located at the bottom of the table. Certain types/categories of costs have been 'blacked out' as Ofgem think that these direct costs will not be incurred for the activities identified. Each of the additional activities is defined as follows: **Call Centres** Operating expenditure incurred to operate all call centres. **Other Operating Expenditure** All other operating expenditure incurred that is not related to the categories identified above so that 'Total Operating Expenditure' agrees to the 'Total operating costs' identified in Table 16. **Statistical information** The statistical information requested is essential to identify the key cost drivers that are thought to be directly related to operating expenditure incurred. Where you think other/additional cost drivers are more appropriate please include the applicable details. The cost drivers identified are defined as follows: ▪ the number of employees (FTE) supporting each function (where applicable). In determining the number of FTE please provide a description of the allocation methodology used; ▪ the number of faults repaired (where applicable). This is to include only those faults where operating expenditure is incurred to restore network supply; ▪ the length of lines/cables inspected (where applicable); ▪ the length of line subject to tree clearing. This is to include only that length of line that is actually cleared where the cost of the tree cutting is recorded as an operating expense; and ▪ the number of towers/poles painted.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Investigation of the expenditure incurred on key activities, particularly in respect to the repairs and maintenance function, together with potential cost driver information will facilitate the cost assessment procedures. The results of this, together with information from other sources, will be used by Ofgem to form a view as to the overall efficiency of each DNO. Ofgem acknowledge that the analysis of expenditure by function may be incorrectly interpreted and request the DNOs to provide any additional information thought necessary to explain the context of the expenditure incurred so that an informed evaluation is able to be made.

Table Reference	Instructions for completion	Purpose
Table 22. – Analysis of Information Technology Costs	Table 22 requests that you provide detailed financial and non-financial information on Information Technology costs (including telecoms) for the years ended 31 March 2001 to 2003. Information technology costs are to be separately presented between ***direct costs*** incurred and ***indirect costs*** incurred. Consistent with disclosures made in other tables ***indirect costs*** are to be split between direct and indirect overheads in the 'Overheads Allocated' category. The column 'Sub-total Direct Costs' is to reconcile (after deducting Internal Employee Expenditure) to the Information Technology (IT) line in Table 16 'Expenditure summary'. Table 22 requests that you classify Information Technology expenditure in the categories outlined below: **IT Development** IT Development expenditure is expenditure incurred to create or modify the Information Technology systems (excluding Telecoms) used by the DNO. Where IT Development expenditure exceeds £0.5m for any one project please provide the following supplementary information: • the objectives of the IT Development project; • the timeframe for completion (estimated or actual); • the anticipated or actual benefits, both financial and non-financial, of the project (financial benefits are to be quantified). Where the project delivered benefits to both Distribution and Supply businesses, such benefits are to be separately identified. Where the IT Development project was capitalised and provided benefits to both the Supply and Distribution Businesses (pre Utilities Act 2000) please detail the treatment adopted in relation to this expenditure. • the expenditure incurred to date and the forecast remaining expenditure required to complete the project; and • the classification of expenditure (expense or asset category) incurred to date in accordance with the Regulatory Accounts classification.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Understanding the level of IT development and utilisation within each DNO will assist Ofgem to understand how the network is managed and provide an indication of the efficiency of the operations. An improved understanding of IT system development and its associated costs and benefits will provide background information to assist Ofgem in developing its thoughts on the potential to capitalise such future expenditure into RAV.

Table Reference	Instructions for completion	Purpose
Table 22. – Analysis of Information Technology Costs (Continued)	**Maintenance and Support** Expenditure incurred to maintain the installed Information Technology systems (excluding Telecoms). **Telecoms** Telecoms expenditure is defined as expenditure incurred in relation to all voice and data communications including: between offices and substations; distribution network protection systems; and other telecoms expenditure.	
Table 23. – Atypical items	In conjunction with the written responses requested later in this BPQ, please provide detailed information for each item that you considered to be atypical because of its size or effect on operating revenue, expenditure (operating or capital) or profit/(loss) of the DNO for the years ended 31 March 2001 to 2003. Atypical items are expected to include both financial events (such as accounting policy treatments) and weather related events. For each atypical item identified please describe the circumstances giving rise to its recognition (including quantification of the revenue/profit or expenditure/loss). Where the atypical item has arisen due to a natural disaster (or similar event) additional details are to be provided to allow Ofgem to understand the nature, scale, duration and disruption caused. At a minimum this is to include: ▪ the date the event occurred, its nature and duration; ▪ a brief description of the damage caused (including locations affected); ▪ the number of customers off supply (if applicable) and the speed at which supply was restored; ▪ the expenditure incurred (allocated between operating and capital in the categories provided) to repair the network/restore supply (if applicable); ▪ payments made to customers (either because of guaranteed standards of performance or ex-gratia compensation); and ▪ the insurance proceeds received (if any) in relation the damage caused, to restoration work performed and/or the compensation payments made.	**Cost assessment: Review of actual costs** The information collected on atypical items will be analysed and evaluated to develop Ofgems understanding of 'normal' expenditure/revenue. This will include, amongst other things: ▪ the frequency and severity of historical atypical events (weather related or similar); ▪ the scale of compensation payments made to customers for disruption of supply (weather related or similar); ▪ the expenditure incurred to repair the network and restore supply (weather related or similar); ▪ the proceeds (if any) received from available insurance policies (weather related or similar); and ▪ the rationale for atypical items arising from changes to accounting treatments/adjustments. The understanding developed will be used to inform DPCR4 discussions and decisions (in conjunction with IIP research) to determine the appropriate treatment of atypical items. This information will also be used to assist in 'normalising expenditure/revenue' where considered appropriate.

Network Capital Expenditure

Introduction

The Network Capital Expenditure Information section of the Historical BPQ is designed to quantify, by type/category and purpose, the capital expenditure incurred by the DNO in maintaining and developing the distribution network. An essential component of this process will be to evaluate the efficiency of network expenditure incurred. Ofgem is planning to assess efficiency on a number of levels so that the impact of DNO specific accounting policies/operational structures is mitigated and the focus is on the 'outputs' produced from the expenditure incurred.

Should you think that any additional Network Capital Expenditure information, beyond that requested, is necessary to fully appreciate the expenditure incurred please include as appropriate in an appendix to your submission.

The following table provides specific guidance in relation to each element of the Network Capital Expenditure Information section and identifies the envisaged purpose associated with the information being requested.

Table Reference	Instructions for completion	Purpose
Table 24. – Summary Capital Expenditure (Regulatory Accounting Policies)	Table 5 – Balance Sheet requests the presentation of fixed assets in aggregate. Table 24 requests a reconciliation of the movement in fixed assets for the years ended 31 March 1999 to 2003. Easement expenditure is to be capitalised and allocated to the category that most accurately reflects the underlying asset being created. ***The accounting policies used to present this information are to be consistent with those adopted for the presentation of the Regulatory Accounts of the DNO.*** This table also requests information on assets disposed of for the period 1 April 1998 to 31 March 2003. The proceeds received are to be allocated between operational and non-operational (pre/post privatisation) assets. Together with the aggregate net book value of the assets disposed, the resultant profit and loss is to be determined. Where assets have been transferred to a related party the proceeds are to be assumed as being equal to an arms length market value. Where this is not the case please identify the proceeds received.	**Cost assessment: Review of actual costs** The fixed asset reconciliation identifies, at a summary level, the movements in the net book value of fixed assets since 1 April 1998 determined in accordance with the applicable regulatory accounting policies.

Table Reference	Instructions for completion	Purpose
Table 25. – Detailed breakdown of capital expenditure additions	Table 24 – Summary Capital Expenditure (Regulatory Accounting Policies) presents the movement in fixed assets in aggregate. Table 25 requests a detailed reconciliation of capital expenditure additions for the years ended 31 March 1999 to 2003 clearly identifying what network assets were acquired. Additional information in excess of that required in the Regulatory Accounts is to be presented for specified assets categories. However, it is acknowledged that this information may be unavailable for the years 1999 to 2001 and accordingly in these years only summarised capital expenditure information (i.e. by major asset category only) is required. Easement expenditure is to be capitalised and allocated to the category that most accurately reflects the underlying asset being created. ***The accounting policies used to present the information presented in this table are to be consistent with those adopted for the presentation of the Regulatory Accounts of the DNO.***	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** This information will be used to analyse capital expenditure by purpose of spend and type of equipment.
Table 26. – Detailed analysis of Capital Expenditure	Table 26 requests the presentation of capital expenditure additions for the years ended 31 March 2001 to 2003 in accordance with the accounting principles identified in the RAGs and consistent with Table 9 – 'Detailed analysis of capital expenditure' in the Financial Statements section of the Regulatory Accounts. This information is to be presented by summarised asset type and purpose of the expenditure (i.e. demand, generation etc.). For the avoidance of doubt, capitalised fault repairs are only to include expenditure on physical repairs (as defined in the RAGs). All non-physical fault repair expenditure is to be recorded as an operating cost.	**Cost assessment: Review of actual costs / Bottom up modelling / Top down modelling** Information on capital expenditure additions (by the purpose of spend and equipment classification) will facilitate Ofgems understanding of the factors influencing the development of the network (including the primary purpose of capital expenditure and infrastructure required).
Table 27. – Connections	Table 27 requests detailed information in relation to connections for the years ended 31 March 1999 to 2003. An explanation of the categories to be completed is as follows: **Contributions from customers – New connections:** Represents contributions received for the construction/installation of all necessary infrastructure (including any reinforcement required upstream of the connection point) to connect a customer to the existing distribution network and includes recovery of future operating costs where relevant. Such contributions are to be separately identified between metered and unmetered connections and allocated to one of the categories provided (as described below). Where estimates are used to facilitate this presentation please provide all relevant details.	**Cost assessment: Review of actual costs** Information on capital contributions received and the related capital expenditure incurred for the connection of a customer, will provide Ofgem with a greater understanding of the DNOs charging principles for a connection. This will provide the necessary information to inform future discussions on the regulation of connection activities (currently an excluded service including contestable and non-contestable activities).

Table Reference	Instructions for completion	Purpose
Table 27. – Connections (Continued)	**Capital expenditure incurred:** The capital expenditure incurred in providing New connections/Reinforcement is to be separately identified as follows: **New connections** Capital expenditure incurred to construct/install the necessary infrastructure to allow a customer to be connected to the existing distribution network. Such expenditure is to be separately identified between metered and unmetered connections and allocated to one of the categories provided (as described below). Where estimates are used to facilitate this presentation please provide all relevant details. **Reinforcement** Represents capital expenditure incurred to reinforce the distribution network so that a new connection may occur. Expenditure incurred is to be separately identified based on the asset categories identified. Where estimates are used to facilitate this presentation please provide all relevant details. **Contribution/Capital expenditure categories:** The contribution/capital expenditure categories are identified as follows: **Metered – New housing services** Metered connections to domestic premises. **Metered – Industrial & commercial only** Metered connection to industrial & commercial premises (i.e. not domestic premises). **Metered – Distributed Generation** Metered connection for generators who export electricity onto the distribution network. **Unmetered – Street lighting** Unmetered connection for street and other public lighting. **Unmetered – Other** All other unmetered connections.	In conjunction with this approach it is likely that Ofgem will issue a separate information request to obtain additional information to develop connections policy in due course.

Table Reference	Instructions for completion	Purpose
Table 28. – Metering network expenditure	Table 28 requires the identification of expenditure incurred to provide metering services (with a particular emphasis on the operating and capital recertification expenditure associated with life expired meters). Metering network expenditure is to be separately identified as follows: ▪ capital expenditure (classified in accordance with the RAGs) incurred in relation to the provision of metering services; and ▪ operating expenditure (classified in accordance with the RAGs) incurred in relation to the provision of metering services. Key definitions are as follows: **Meter installation costs capitalised** All costs incurred (direct and indirect) to install a meter ready for use. This also includes the initial cost of a new meter (or the recertification cost of an existing meter) where applicable. **Meter re-certification costs** All costs (direct and indirect) incurred to refurbish a life expired meter such that it becomes available for installation again. This number will be consistent with the cost of meter re-certification included in the above metering installation costs capitalised. **Analysis of meter recertification expenditure incurred (capital or operating)** Within both capital (Table 28A.) and operating expenditure (Table 28B.) you are requested to provide a detailed analysis of expenditure associated with the ***re-certification of life expired meters***. The capital and operating expenditure incurred is to be presented separately based on its source (either Internal/External or Group/Related parties). Within the source categories identified, expenditure incurred is to be presented by key categories/types of expenditure (consistent with the methodology outlined in Table 16 – 'Expenditure Summary'). It is important to note that overheads allocated to meter recertification are to be separately presented.	**Cost assessment: Review of actual costs** This table will inform Ofgem's understanding of both operating and capital expenditure on meters. Expenditure incurred in relation to installing, operating and maintaining metering assets will inform the calculation of the meter recertification adjustment to RAV as committed to by Ofgem in DPRC3. The commitment made in DPCR3 was to treat meter re-certification costs as capital expenditure (and thus a component of RAV) where such expenditure has been incurred efficiently and is an alternative to acquiring and installing a new metering asset.

Table Reference	Instructions for completion	Purpose
Table 29. – Summary Capital Expenditure (DPCR3 Accounting Policies)	Table 29 requests the presentation of capital expenditure additions for the years ended 31 March 1998 to 2003 in accordance with the accounting policies used in DPCR3. These accounting policies and adjustments onto a RAV basis are defined within the RAGs. This table also requests information on assets disposed. The proceeds received are to be allocated between operational and non-operational (pre/post privatisation) assets. Together with information on the aggregate net book value of the assets disposed, the resultant profit and loss is to be calculated and presented. Please note that the information requested on asset disposals will differ from that requested in Table 24 if an asset disposed of was subject to a DPCR3 Accounting policy adjustment.	**RAV roll forward** This schedule identifies the capital additions incurred as determined in accordance with the DPCR3 accounting policies. The information will be used as the basis for rolling forward the Regulatory Asset Value ("RAV") from 31 March 1998 (verified in DPCR3) to 31 March 2003 An essential process in rolling forward the RAV will be to measure and assess the efficiency of expenditure incurred on a consistent and comparable basis for all DNOs. Ofgem plan to evaluate efficiency on a number of levels to minimise the impact of DNO specific accounting policies/operational structures. This will include focusing on the 'outputs' produced from the expenditure incurred.
Table 30. – Analysis of Metering Assets (Historical Cost Accounting – NBV)	Table 30 requests the Net Book Value ('NBV') based on Historical Cost Accounting principles for 'prepayment meters', 'other meters' and the associated assets essential to facilitate the provision of metering services. You are requested to estimate the NBV attributable to the original purchase price, installation costs and any other expenditure capitalised for all meters as at 31 March 2003. In addition, please estimate the number of 'prepayment meters' and 'other meters' by category as at 31 March 2003.	**Inform future metering policy discussions** To support the discussions on future metering policy development, including the potential for a separate price control, it is considered essential that sufficient and appropriate background information is collected on existing metering assets. This information will assist to ensure that informed discussions are able to occur when considering future metering policy. In conjunction with this approach it is likely that Ofgem will issue a separate information request to obtain additional information to develop the metering policy in due course.

Table Reference	Instructions for completion	Purpose
Table 31. – Analysis of Metering Assets (Depreciated Replacement Cost Accounting)	Table 31 requests the Depreciated Replacement Cost ('DRC') to be determined for each grouping of meters and associated assets essential to facilitate the provision of metering services. For each of the meter/associated asset category identified you are required to estimate the DRC attributable to the purchase price, installation costs and any other expenditure capitalised as at 31 March 2003. In addition, please estimate the number of meters held as at 31 March 2003 by the categories in the table. The DRC is to be estimated on the basis of the costs incurred to replace existing assets with new assets of comparable quality/performance (in accordance with FRS 15 – Tangible Assets) depreciated in accordance with your normal meter depreciation policy (a copy of which is to be provided). All costs necessary to bring the assets into operation should also be included and the anticipated residual value deducted.	**Inform future metering policy discussions** To support the discussions on future metering policy development, including the potential for a separate price control, it is considered essential that sufficient and appropriate background information is collected in relation to the metering assets involved. The information collected on the DRC of metering assets will assist to ensure that informed discussions are able to occur when forming metering policy.

Written responses

Introduction

The written response section of the Historical BPQ is designed to address specific financial and non-financial considerations that Ofgem think are important in informing discussions and decisions during the DPCR4 project.

Should you think that any additional information beyond that requested is necessary to develop a complete understanding of the performance of the DNO please include as appropriate in an appendix to your submission.

The following table identifies the questions for which a response is requested and briefly outlines the rationale and anticipated use of the information obtained.

Question	Purpose
Overall	
1. Please provide the management accounts that describe the performance of the DNO for ***each financial year end*** (31 Dec or 31 Mar) during the period 1 April 2000 to 31 March 2003. In addition please provide the management accounts for ***the month ended*** 31 March 2003.	Management accounts will provide background information to enable Ofgem to understand the context of the DNOs performance during the period of DPCR3.
2. Please provide the 3 most recent tax computations (if available) for the years ended 31 Dec or 31 Mar as submitted to the Inland Revenue. Any relevant documentation used to prepare or support the return, together with an indication of the status of negotiations with Inland Revenue (offers/amendments negotiated etc.) is also to be provided for each of the tax computations.	Tax requires further in-depth analysis so that the potential implications for DPCR4 may be understood.
3. Please include the latest full actuarial valuation report for each defined benefit pension scheme identified in Tables 9 and 10. In addition please provide the valuation roll-forward calculations and assumptions applied to derive the latest valuation. 4. Where the DNO contributes to a 'Group' defined benefit pension scheme, please identify the legal responsibility and liability in relation to scheme surpluses/deficits. This information is requested in relation to each scheme that the DNO contributes to.	Actuarial valuation reports will be used in conjunction with company responses to understand: ▪ how the pension scheme surpluses/deficits have arisen; and ▪ the different assumptions used by DNOs to calculate the pension scheme surpluses/deficits.

Question	Purpose
Overall (continued) 5. Please provide the following: ▪ Trial Balance ▪ Chart of Accounts; ▪ Accounting policies and procedures manual; and ▪ Capital investment manual.	The Trial Balance, Chart of Accounts, Accounting Policies and Procedures Manual and the Capital Investment Manual will allow Ofgem to understand the financial operating systems of each DNO and how financial information is captured and reported. This will assist in ensuring that, as far as possible, consistent and comparable financial information is used in DPCR4.
Capital expenditure and network development 1. Please describe the capital expenditure efficiency initiatives implemented during the years ended 31 March 2001 to 2003. Descriptions should include: ▪ the efficiency initiative implemented identifying the estimated impact on the DNOs operating and capital expenditure requirements; ▪ the planned efficiency savings initially identified (including any cost v benefit analysis); and ▪ the actual expenditure savings generated (including an indication of when savings were realised) and the associated costs (both in terms of operating and capital expenditure) of implementing the efficiency initiatives. A capital expenditure efficiency initiative is expected to include any program implemented that has resulted in/is expected to result in a permanent or one-off reduction in capital expenditure. Examples may include outsourcing, improved asset management programs etc. 2. Please provide detailed explanations for variances between actual capital expenditure incurred and your capital expenditure forecasts submitted in DPCR3 (before PB Power assessment and final Ofgem determination) for the financial years ended 31 March 1999 to 2003. Explanations should address: ▪ projects performed / delayed / cancelled / brought forward; ▪ any under/over spend that occurred on planned and unplanned price control projects together with additional information to enable an understanding of the reason for the under/over spend; and ▪ identification of the rationale for planned and unplanned capital projects. This is expected to include identification of the anticipated benefits of major projects including financial and non-financial factors. 3. Please provide any network condition evaluation surveys or consultants reports performed on the network during the financial years ended 31 March 2001 to 2003.	Explanations for over/under spend will develop Ofgem's understanding of network development priorities and operational decisions made during DPCR3. This information will also be used to inform deliberations and assessment of DPCR4 capital expenditure forecasts. Network condition surveys or consultant reports provide important information to support actual capital expenditure programs and forecast network development/replacement initiatives. In recognition that each DNO may have a different network management policy/emphasis, which in-turn may lead to different expenditure profiles it is important that Ofgem fully understand the implications of the policy adopted.

Question	Purpose
Capital expenditure and network development (Continued)	
4. Please describe the network management policy adopted by the DNO, specifically identifying any developments/major changes since the commencement of DPCR3/the asset Risk Management Survey. This is to include: ▪ the key criteria/priorities of management that form the basis of network planning decisions; ▪ a description of the key elements of the network management methodology; and ▪ identification of the tools used by management to implement and monitor network management.	The following questions will inform Ofgem's understanding of how the network is managed and, where applicable, provide evidence to support the level of capital expenditure previously incurred.
5. Please provide a detailed description of the network replacement expenditure methodology utilised. This is to include as a minimum: ▪ a description of the asset/condition based monitoring method(s) adopted; and ▪ an explanation of the frequency of inspection/repair & maintenance programs required as a result of the program adopted.	
6. Please describe any specific conditions/factors in relation to the whole or part of the network that have influenced (positively or negatively) 'normal' network asset replacement profiles (Note: 'normal' network asset replacement profiles refer to industry standards and the historical experience of DNOs). Where such circumstances are identified, sufficient information is to be included to allow Ofgem to understand the background to each circumstance. You are also requested to quantify the capital expenditure deferred to later years or increased expenditure incurred for each of the financial years ended 31 March 2001 to 2003.	
7. Please identify the strategy adopted for responding to faults including an indication of the frequency/number of faults that need to occur before replacement of network assets is planned. For ***each*** major type of network asset the description of the strategy is to identify: ▪ the standard response to a fault occurring (i.e. physical/non-physical repair, replacement etc.); ▪ the frequency/number of faults necessary before an investment decision is made to replace the type of network asset concerned; and ▪ any additional factors that may be influencing a decision to replace a type of network asset at any given location.	
8. Please provide capital expenditure investment scheme papers for the three largest projects (by expenditure) ***completed*** in each year for the periods ended 31 March 2001 to 2003.	
9. Please describe and quantify any factors that have historically affected your capital expenditure but don't (in your opinion) affect the other DNOs capital expenditure costs (e.g. higher London costs).	
10. Please describe the overhead allocation policy that applies to both load and non-load related capital expenditure. If there are two separate policies then please explain both of these policies in detail.	

Question	Purpose
Capital expenditure and network development (Continued) 11. Please describe and quantify potential or existing factors (including co-ordination with NGC) influencing the management of Grid Supply Point ("GSP") replacement expenditure. For each factor identified please quantify the capital expenditure and operating cost (if any) implications.	
Operating expenditure 1. Please describe the operating expenditure efficiency initiatives implemented during the years ended 31 March 2001 to 2003. Descriptions should include: ▪ the efficiency initiative implemented identifying the estimated impact on the DNOs operating and capital expenditure requirements; ▪ the planned efficiency savings initially identified (including any cost v benefit analysis); and ▪ the actual expenditure savings generated (including an indication of when savings were realised) and the associated costs (both in terms of operating and capital expenditure) of implementing the efficiency plan. An operating expenditure efficiency initiative is expected to include any program implemented that has resulted in/is expected to result in a permanent or one-off reduction in operating expenditure. Examples may include outsourcing, improved asset management programs etc.	This information will assist Ofgem to understand the factors that have resulted in reduced operating expenditure when compared to the forecasts made in the DPCR3, including the success of the initiatives implemented. This information will also inform Ofgem of the associated costs incurred to implement the identified efficiency initiatives.
2. Please identify and quantify (where possible) expenditure that you think represents a fixed business cost (i.e. expenditure that does not materially vary with the level of activity performed by the DNO). In addition please identify and quantify (where possible) expenditure that you think represents a variable business cost (i.e. expenditure that is directly related to the activity performed by the DNO). For such expenditure please identify the key cost driver(s) governing the amount of expenditure incurred. For consistency and comparability it is suggested that you present the fixed and variable business costs in a manner consistent with that adopted in Table 16.	Developing an understanding of how management views the cost drivers of the DNO will provide information to assist in developing a robust cost assessment in DPCR4.
3. Please identify and quantify (where possible) expenditure that you think represents a controllable business cost (i.e. necessary expenditure incurred that is directly/indirectly influenced by operational decisions made by the management). In addition please identify and quantify (where possible) expenditure that you think represents a non-controllable business cost (i.e. necessary expenditure incurred that is beyond the influence of management). For controllable business costs the key cost driver(s) governing the expenditure incurred are to be identified. For consistency and comparability it is suggested that you present the fixed and variable business costs in a manner consistent with that adopted in Table 16.	
4. Please estimate the time spent by employees/contractors monitoring and responding to network faults in hours and also as a percentage of total hours available for work by those employees/contractors for each financial year ended 31 March 2001 to 2003. Time spent monitoring and responding to network faults includes travelling time (where applicable), time required to locate the fault and the time required to restore supply.	Understanding the amount of time spent by employees in monitoring and responding to network faults will provide additional information for the benchmarking process.

Question	Purpose
Operating expenditure (Continued) 5. In relation to the network management policy identified and described in the 'Capital expenditure and network development' section please provide a detailed description of how this policy is implemented in relation to the following areas: ▪ the network inspection program used to prevent and detect faults; ▪ the vegetation management program (tree trimming) used to minimise the occurrence of a fault; and ▪ the tower painting program used to preserve the useful life of network assets 6. Please describe any specific conditions/factors in relation to the whole or part of the network that have influenced (positively or negatively) 'normal' network asset operation and maintenance profiles (Note: 'normal' network asset operation and maintenance profiles refer to industry standards and the historical experience of DNOs). Where such circumstances are identified, sufficient information is to be included to allow Ofgem to understand the background to each circumstance. You are also requested to quantify the capital expenditure deferred to later years or increased expenditure incurred for each of the financial years ended 31 March 2001 to 2003. 7. Please describe and quantify any factors that affect your operating expenditure but you think don't affect the other DNOs (e.g. London costs/asset age or condition etc.). 8. Please describe the overhead allocation policy applied to operating expenditure incurred.	Understanding the network management policy (particularly in relation to the areas identified) will allow Ofgem to gain an appreciation for how management think the policy adopted affects on-going operating expenditure. It will also provide background information to enable Ofgem to evaluate whether the 2003 expenditure incurred is representative of a 'normal' year. The following three questions will inform Ofgem's understanding of how the network is managed and where applicable provide evidence to support the level of operating and capital expenditure previously incurred.
Quality of Supply 1. Please identify each significant work stream or project implemented where the primary objective was to deliver an improvement in Quality of Supply (based on the IIP Quality of Supply measurement definitions). This should clearly identify: ▪ the Quality of Supply performance before implementation occurred; ▪ a description of the work performed including technical details where appropriate; ▪ the Quality of Supply performance improvement achieved; ▪ any additional network improvements created as a by-product of the work performed; and ▪ the expenditure (separated into operating and capital expenditure) incurred to complete the project. Justification is requested to support the estimates. It is anticipated that specific Quality of Supply projects will be selected for detailed review by Ofgem and its consultants as part of the process to evaluate the efficiency of capital expenditure incurred and the Quality of Supply improvement delivered.	The responses obtained will be used to assist Ofgem to understand the historical relationship between expenditure (capital and operating) and improvements in Quality of Supply. Understanding the historical relationship will enable new Quality of Supply improvement targets to be established and also help Ofgem to understand the expenditure allowances necessary to support the Quality of Supply targets. This information, when combined with the results of the customer willingness to pay survey, will provide key background information to help establish measurable targets for the DPCR4 and assist in evaluating the efficiency of historical capital and operating expenditure.

Question	Purpose
Quality of Supply (Continued) As guidance, when evaluating improvements in Quality of Supply performance the areas considered relevant are: ▪ Reliability (fault levels); ▪ Security and availability of supply (number and duration of interruptions); ▪ Multiple interruptions; ▪ Short interruptions; ▪ Network resilience to severe weather and other exceptional events; and ▪ Telephony improvements.	
2. Please estimate the operating and capital expenditure directly incurred where the primary purpose of the expenditure was to ***maintain*** the existing Quality of Supply performance for the year ended 31 March 2003. Accordingly the expenditure identified in Question 1 of this Section is to be excluded. Justification used to support the estimates used are also to be provided.	This will allow Ofgem to develop an understanding of the financial expenditure required to maintain, as opposed to improve, Quality of Supply performance and will inform key deliberations in the DPCR4.
3. Please identify improvements in systems for measuring quality of supply to achieve LV connectivity. In conjunction with this please identify the amount of expenditure (operating and capital) incurred to achieve these improvements.	To inform DPCR4 discussions Ofgem consider it important to understand the Quality of Supply measurement systems implemented including the associated costs.
4. Please identify any significant under-grounding projects that have occurred in the financial years ended 31 March 2001 to 2003. This should clearly identify for each major project: ▪ statistical information on the under-grounding performed (length, cable specifications etc.). This should also include a description of the network replaced by under-grounding; ▪ the rationale for under-grounding the network selected; ▪ the capital expenditure incurred to under-ground the network. In addition the net book value of assets replaced should also be identified (where applicable); ▪ the operating expenditure incurred to under-ground the network (if applicable); ▪ an estimate of the operating and capital expenditure savings expected to arise from under-grounding the network arising from reduced R&M requirements, deferral of replacement expenditure and reduction in fault restoration expenditure etc; and ▪ an estimate of the quality of supply improvements arising directly from the under-grounding project performed.	To facilitate informed surveys aimed at determining the willingness of customers to pay for under-grounding of existing or future overhead networks it is necessary for Ofgem to develop an understanding of the expenditure and the potential impact on allowed revenue likely to be incurred.

Question	Purpose
New Connections 1. Please describe the method and underlying principles applied (i.e. connection charging policy) to determine a connection charge for each of the connection types identified below. This is to include references to your connection charging statements that set out or expand upon charging principles. ▪ new housing services ▪ industrial and commercial ▪ distributed generation ▪ street lighting ▪ other unmetered NB: Each of the connection types are defined in the Instructions for completion in Table 27 – 'Capital Contributions'. 2. Please identify the principle overall cost drivers for the following types of connections (e.g. load required, distance to service or main, population density etc.): ▪ new housing services ▪ industrial and commercial ▪ distributed generation ▪ street lighting ▪ other unmetered 3. Please identify how these cost drivers affect the charging method and principles as identified in Question 1. 4. For each type of connection as identified above please describe the: ▪ extent estimation of costs occurs when determining connection charges; ▪ the methods of estimation used (where applicable); ▪ the key data used in determining the estimated connection charge.	Ofgem is in the process of evaluating the extent and effectiveness of competition in the new connections market. To ensure that informed discussions and decisions are made it is necessary to collect background information on the existing new connection charging arrangements. The following series of questions request information that Ofgem think is relevant to facilitate an informed discussion.

Question	Purpose
New Connections (Continued) 5. In your opinion should charges for non-contestable services be price controlled. If your view is that non-contestable charges **should** be subject to price control please identify: ▪ what method or principles should be considered when developing a price control; ▪ to what extent should the price control allow for developments in the split of contestable/non-contestable services; ▪ how such a control should affect the boundary between connection charges and use of system charges? If your view is that non-contestable charges **should not** be subject to price control please: ▪ explain how charges for non-contestable monopoly services are constrained (other than via 'determinations'; and ▪ identify the prospects for widening the scope of connection functions/activities that are contestable.	
Distributed Generation 1. Information in relation to Distributed Generation is the subject of a separate questionnaire and accordingly no specific Distributed Generation questions are asked in this questionnaire.	
Environmental 1. Please provide information to identify environmental management and policies. This information should include at a minimum the following: ▪ the type and frequency of environmental reports including information about how such reports are distributed; ▪ a brief summary of the main components of the reports (alternatively please attach/refer Ofgem to the latest copy of the environmental report produced); ▪ an estimate of the costs associated with the production of an environmental report; ▪ a description of how the DNO discharges its environmental responsibilities under Schedule 9 of the Electricity Act 1989; ▪ the procedures implemented by the DNO to manage its use of SF_6; ▪ the procedures implemented by the DNO to manage the risk of oil pollution. Where oil pollution incidents have occurred in the last 3 years please provide a brief description of each incident; and ▪ the policies and procedures implemented by the DNO for road works, waste management and disruption.	Understanding the environmental responsibilities of DNOs is an important part of Ofgem's responsibility when developing the DPCR4. As this area of responsibility has recently developed, information obtained from responses will assist Ofgem in developing its understanding of all relevant environmental issues that may influence DPCR4 discussion and decisions.

Question	Purpose
Metering	
1. Please describe the accounting policy adopted on acquisition of metering assets. The description should include sufficient detail to allow Ofgem to identify when such assets are capitalised and the valuation principles applied to determine when capitalisation occurs (in particular it should explain how installation costs have been treated).	Variations in the treatment adopted by DNOs of metering assets on acquisition require that Ofgem clearly understands the accounting policy adopted by each DNO.
2. Please describe the key assumptions and methodology used to calculate the Depreciated Replacement Cost ('DRC') of Metering Assets. This is to include at a minimum the following: ▪ how the DRC has been determined; ▪ the name, cost and assumed functionality of the replacement meters; ▪ the installation and other associated costs necessary to place the meter in its current network location; and ▪ the rationale for assessing the required functionality of the replacement meters (including any specific requirements arising out of the Licence conditions).	Consistent with the paper soon to be published discussing the potential options available for metering activities, the questions in this section will provide information to allow Ofgem to conduct informed discussions and make informed decisions.
3. Please identify how, in your opinion, operating expenditure and RAV should be allocated between the Metering Service Provider and the Rest of Distribution;	
4. Please describe your current meter recertification policy and, if applicable, how this policy has changed since privatisation. The rationale for any policy changes is to be identified.	
5. Please describe the accounting policy adopted in relation to the recognition of installation costs. If this policy has changed since privatisation please identify when this change occurred.	
6. Are you considering, have you considered, or will you consider divesting metering assets. If so, please identify the impact of the proposal to separate DPCR4 between the metering service provider and the rest of distribution business on your deliberations (if applicable).	
7. Please identify any additional considerations that Ofgem needs to be aware of in order to make an informed decision on the proposal to separate DPCR4 between the metering service provider and the rest of distribution business. This should include detailed information on the degree of integration that currently exists within the current DNO business.	

Question	Purpose
Mergers 1. Please describe and quantify (where applicable) the synergies and expenditure efficiencies that have been realised on the acquisition of other DNO business since privatisation. This is to include as a minimum the following: ▪ reports presented to the relevant board of directors that quantify and describe the expenditure synergies achieved; and ▪ reports presented to the relevant board of directors that identify further opportunities for expenditure synergies.	In accordance with the conditions of each acquisition approved by the Authority, Ofgem is to ensure that customers receive an appropriate proportion of the expenditure synergies achieved. This information will assist Ofgem in fulfilling this responsibility and will be analysed on an individual DNO group basis.