

DNO Full Name

**Regulatory Reporting Pack
Cost Commentary**

Reporting Year 2006/07

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Chapter 0.1: Objectives, Information required and de minimis limits

Objectives

The objective of the commentaries is to provide an explanation of the costs reported in the RRP Tables to give Ofgem an understanding of those costs prior to the review visits and for undertaking comparability analyses.

A full and frank commentary should reduce the number of questions and time spent by both Ofgem and DNO staff on review visits.

General

Commentary is required in response to specific questions included in this document.

If the commentary is exactly the same as a previous year then the DNO may specify which year's commentary Ofgem should refer to. If, however, there have been any amendments at all, the commentary should be provided in full. This should ensure there is no confusion as to the location of the relevant commentary.

DNO's should include supporting documentation where they consider it necessary to support their comments or where it may aid Ofgem's understanding. Please insert an appropriate chapter heading and commentary box in the body of this document where it is necessary to provide additional commentary.

Changes in Reporting Systems

Where a DNOs' underlying data collection systems do not record the information to enable them to report cost data to the level of granularity specified in the rules please explain:

- The basis of attribution to each relevant table, activity or cost category.
- What action has been, or is intended to be, taken to collect the data to report to the level of granularity required by the rules. If no action is intended to be taken the commentary should explain why.

<i>Type commentary here</i>

Chapter 2.1: Reconciliation to Regulatory Accounts

Please explain the reasons for each reconciling item. The commentary should include:

- A description of the reconciling item
- A basic explanation of why the reconciling item has arisen

- An explanation of how the figure has been calculated. This should be sufficient for Ofgem to confirm the calculation during the visits if required.
- Where IFRS has been adopted a statement of that fact listing the principle changes in the accounts to opex and capex is required.

Type commentary here

Chapter 2.2: Detailed Cost Matrix – cash typical basis

If the costs of any activity in the table have changed by more than 10% and £0.2m please provide an explanation. For the avoidance of doubt, commentary is only required where the increase or decrease in costs is above the greater of 10% and £0.2m. The commentary should be consistent with the year-on-year movement schedule (Table 4.2) in the RRP and include:

- Any changes in the cost base such as salary increases, increased contractor or materials costs, or changes to insured risks.
- Any changes in activity levels.
- Any changes in working practices or restructuring.
- An explanation of the basis of attribution of indirect costs to non-distribution activities and, where no indirect costs are allocated explaining the reasons.

Type commentary here

Table 4.2 Year on Year movements is used to report movements satisfying the above criteria and all individual movement amounts reported should be addressed in the commentary.

If particular costs have been interpreted as residing in a different activity from that reported in the previous year, please provide:

- A description of the relevant costs.
- Quantification of those costs in the current year and where they have been reported.
- Quantification of those costs for the previous year(s) from 2004/05 and where they have been reported.
- An explanation of the reasons for the change indicating where this arises from a change in the definitions at Appendix 2 from the previous year.

Chapter 2.3: Inspections, Maintenance, Tree Cutting and Faults

If particular costs have been interpreted as residing in a different activity from that reported in the previous year, please provide:

- A description of the relevant costs.
- Quantification of those costs in the current year and where they have been reported.
- Quantification of those costs for the previous year(s) from 2004/05 and where they have been reported.
- An explanation of the reasons for the change indicating where this arises from a change in the definitions at Appendix 2 from the previous year.

Type commentary here

Inspections and Maintenance

Please explain:

- Any special factors resulting in maintenance work being postponed/accelerated from/into this year;
- Cost movements from changes in inspection and maintenance cycles or policy; and
- The basis of the allocation where data or the allocation of the data has been estimated.

Type commentary here

If particular costs have been interpreted as residing in a different activity from that reported in the previous year, please provide:

- A description of the relevant costs.
- Quantification of those costs in the current year and where they have been reported.
- Quantification of those costs for the previous year(s) from 2004/05 and where they have been reported.
- An explanation of the reasons for the change indicating where this arises from a change in the definitions at Appendix 2 from the previous year.

Type commentary here

Tree Cutting

Please explain:

- Whether any tree cutting has been required as part of 'capital' schemes undertaken by contractors and thereby excluded from the costs included in the table.
- Whether the costs of ensuring that the tree cutting has been completed and to specification have been included in the table and, if not, where those costs have been included in Table 2.2.
- Whether there is any catch-up of tree cutting backlog included in the costs, resulting from a change in policy (e.g. cut frequencies) or a review of the state of the network, and if so quantify in terms of spans and costs in the year.

Type commentary here

Faults

Please explain:

- How costs have been attributed to the asset headings in the table.

Type commentary here

Chapter 2.4: Detailed Capex

Load Related New and Replacement Assets

Please provide:

- An explanation of the Non-Operational Assets purchased under each category (e.g. Small Tools & Equipment, Office Equipment, etc) where the costs exceed £0.5m. The explanation to include brief descriptions of the assets (naming IT applications and briefly describing their role) and the number purchased for multiple items (e.g. vehicles).
- For each of the asset purchases explained above comments indicating whether you consider the purchases in the reporting year to be at a 'normal' level or, if not, whether the spend is particularly high or low and the reasons for that difference to normal/sustained levels.

Type commentary here

Chapter 2.5: Cash Atypicals & utilisation of provisions & atypical accruals & prepayments

Please provide:

- An explanation of every atypical event/item leading to an entry in Table 2.5 including the nature of the cost and in the case of non-prescribed items why they are classified as atypical.
- An explanation of charges, releases and utilisation of provisions.
- An explanation of any atypical accruals and prepayments included in the Table.
- An explanation for and the costs of each severe weather event agreed with Ofgem QoS team.

Type commentary here

Chapter 2.6: Miscellaneous

Please provide:

- If a salary sacrifice scheme exists, an explanation of how it operates, how it has been included in the RRP and which employees are included.
- The date when proposed relevant adjustment(s) for uncertain costs under Special Condition A3 of the electricity distribution licence was made to Ofgem.

- An explanation of whether any use of system bad debts recovered were previously allowed as cost in this or a previous price control.

Type commentary here

Chapter 2.7: FTE Labour Costs

Please explain:

- How the FTE numbers have been derived, e.g. whether directly from HR or similar records or, if by another method, explain the basis for each activity for the DNO and each related party.
- If it is the case, why the actual average and calculated average costs are outside the 10% tolerance and why either costs allocations or FTE numbers have not been corrected to bring them with that tolerance.

Type commentary here

Chapter 2.10: Excluded Services & Out of Area Networks

Commentary should specifically include explanation of:

- How the costs reported have been calculated.
- Any difference between reported revenue and that in the Revenue Return.

Type commentary here

Chapter 2.11: Related party analysis

Commentary should specifically include explanation of:

- How the allocation of related parties at more than one level, (i.e. where there are cross charges) have been reported.
- Where the cross-check indicates that the reported amounts do not agree to the aggregate amounts reported for each an individual related party in Tables 2.2, 2.5 and 2.12, the reasons.

Type commentary here

Chapter 2.12 Cash Pension Contributions & Schemes data

Commentary should specifically include explanation of:

- How the attributions to activities reported have been calculated and how they differ from prior year(s)

- Where the pension scheme encompasses more than one DNO, related party or business activity how the reported amounts have been calculated.
- What steps are taken to alleviate the risk based element of the pension protection fund levy, including the current and prior year Dun & Bradstreet ratings.
- Changes in contribution (employer and employee) rates.
- The basis on which a deficit cash contribution has been attributed to the distribution business.
- How each pension scheme’s administration costs are met, e.g. by DNO, related party or pension scheme and, if shared, how?

Type commentary here

Chapter 2.13: Tax Capital Allowances

Please explain:

- Any adjustments to prior year closing capital allowance pool.

Type commentary here

Chapter 3.1: Asset Quantity Data

Please explain the changes identified under ‘Data Cleansing’. This commentary should include:

- An explanation of the process of data cleansing.
- An explanation of the impact of the changes as a result of the data cleansing on previous year(s) figures provided.

Type commentary here.....

For the data provided for each of the Tree-related data columns, please explain:

- How the number of spans on the network has been calculated. This should include:
 - How the base data has been determined (e.g. a count of assets).
 - Whether spans or poles/towers are recorded separately.

Type commentary here.....

- How the number of spans affected by trees has been calculated. This should include:
 - Whether this has been defined in accordance with ESQCR definitions or other definitions (explain the basis).

Type commentary here.....

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- Summary details of the Tree Cutting policy and how the number of spans cut has been calculated. This information should include:
 - Cut frequencies per voltage.
 - How the Tree Cutting is organised i.e. the proportion (%) undertaken by DNO or Related Parties and the proportion by third parties.
 - How the DNO gains an assurance that the planned spans cut and the specified cut distance have been achieved.

<i>Type commentary here.....</i>

**Chapter 4.3:
Load related network risk**

Please explain:

- If the substation firm capacity has been assessed on a load group basis rather than individual substation.

<i>Type commentary here</i>
