

**GDN Name**

**Regulatory Reporting Pack  
Cost Commentary**

**Reporting Year 2007/08**

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## 1: Objectives

### 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 GDN 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 GDN 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.] *Not applicable 1<sup>st</sup> year*

GDNs 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 section heading and commentary box in the body of this document where it is necessary to provide additional commentary.

## 2: Changes in Reporting Systems

Where a GDNs' 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.

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## 3: 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 principal changes in the accounts to opex, capex and repex is required.

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#### 4: Tax Capital Allowances

Please explain:

- Any adjustments to prior year closing capital allowance pool.

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#### 5: Opex Activities

Where there have been changes to operating policies or procedures, please provide a copy of the revised policy or procedure, and explain what the changes were and the reason for making the change.

Where changes in legislation or regulations have impacted the cost of carrying out any of the opex activities please provide details of these changes and the impact.

Where data has been allocated or apportioned to any of the opex activities rather being directly attributable, please provide details of those amounts together with the basis of allocation or apportionment used.

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#### 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;

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#### 6: Related party analysis

Explain how costs from related parties have been derived, including how the allocation of related parties at more than one level, (i.e. where there are cross charges) have been reported.

GDN response to be entered here

## 7: Excluded, Consented and De Minimis Services

Commentary should specifically include explanation of:

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

GDN response to be entered here

## 8: Opex Movements

### Reclassifications

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 2006-07 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 3 from the previous year

GDN response to be entered here

### Other movements

If the costs of any activity in the table have changed by more than 10% and £0.5m from the previous year 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 £0.5m. The commentary should be consistent with the year-on-year movement schedule (Table 2.5) 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.
- Any changes in legislation or regulations increasing the workload, scope of the activity or cost of performing the activity.

An explanation of the basis of attribution of indirect costs to non-distribution activities and, where no indirect costs are allocated explaining the reasons

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## 9: FTE and 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 GDN and each related party.
- 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

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## 10: 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 GDN, 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 GDN, related party or pension scheme and, if shared, how?

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## 11: Provisions and accruals

Please provide:

- An explanation of charges, releases and utilisation of provisions shown in Table 2.10.
- An explanation of any atypical accruals and prepayments included in the Tables 2.10 and 2.11.

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## 12: Detailed Capex

Please provide:

- A comprehensive overview narrative, supported by (free format) tables, to demonstrate how the business has managed overall Capex and Repex spend from April 2007 to March 2008. Compare actual spend in each material area of expenditure with the Capex and Repex allowances given for this time period.
- Identify any material workload or cost changes that have caused such variances and explain the nature of the drivers for these changes (both external and internal management changes). Describe the actions taken to mitigate the effects of any other negative external or internal drivers and any actions taken to increase the benefits from positive drivers.
- An explanation of all project expenditure 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). Where available copies of the board papers or exec papers approving the spend should be supplied.
- 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.
- An explanation of all capex projects costing more than £0.5m

GDN response to be entered here