

**DNO Group Name**

**Regulatory Reporting Pack  
Cost Commentary**

**Reporting Year 2008/09**

## Contents

The main chapter numbers relate to the tables in the RRP to which the text relates

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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

To avoid duplication, one Commentary document is required per DNO Group. Respondents should ensure that comments are clearly marked to show whether they relate to all the DNOs in the group or to which DNO they relate.

Commentary is required in response to specific questions included in this document. If the respondent wishes to include further comments to assist in our understanding of the data provided in the data tables this is welcomed.

If the commentary is exactly the same as a previous year then the DNO should 'cut and paste' previous year's commentary into the document and include a note explaining that this is the same as for the previous year. This should minimise the number of documents that we need to refer to in discussions with the DNOs.

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.

We have included some basic guidance in some areas to give an indication of the quantity of commentary we would expect to receive. This is only very broad guidance and should not be seen as a reason to limit comments where you feel additional information would be beneficial to our work.

### 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.

*Type commentary here*

## Chapter 1.1: Summary Indicators

Provide:

- A summary explanation at a corporate level of the movements in actual costs compared to the prior year.

*Type commentary here*

## 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

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 2.13) 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.

We would expect the commentary to consist of:

Faults/I&M/Tree Cutting – 2 to 3 points per asset category highlighting the key reasons for any change in expenditure and the financial impact of each

Non-Operational Capex – 1 to 2 points per asset category as defined in Table 2.4.

Indirect Costs – 3 to 4 points per activity

New Easements/Servitudes should be reported against the activity to which they relate. Provide an additional table showing the value of new Easements/Servitudes and of converted wayleaves for each of the relevant Activities.

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

<i>Type commentary here</i>
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#### **Faults**

Please explain:

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

We would expect the commentary to approximate to a single page (side)

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

We would expect the commentary to approximate to a single page (side)

<i>Type commentary here</i>
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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. Where this is the case provide details of the work undertaken including the total linear distance cleared/cut and the projects this relates to.
- 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.

We would expect the commentary to approximate to a single page (side)

*Type commentary here*

## **Chapter 2.4: Detailed Capex**

### **Load Related New and Replacement Assets**

Please explain:

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

*Type commentary here*

### **Non-Load Related Replacement**

Please explain:

- How costs have been attributed to the asset headings in the tables (i.e. by the main driver for the work or split by individual assets).

We would expect the commentary to approximate to 2 pages (sides)

<i>Type commentary here</i>
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## Non-Operational 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.
- A description of how expenditure is apportioned between load and non-load related.
- If DNO data systems are not able to determine the voltage of assets being installed for general reinforcement an explanation of what information those data systems do hold must be included together with an explanation of how the DNO has attributed costs to the asset categories.

<i>Type commentary here</i>
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## Chapter 2.5: Atypicals & provisions

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.

We would expect the comments to approximate to about half a page (side) for each of the categories of Atypical costs (i.e. Atypical Events, Provisions, Atypical Accruals)

<i>Type commentary here</i>
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## 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.
- An explanation of whether any use of system bad debts recovered were previously allowed as cost in this or a previous price control.
- Identification of each debtor that is considered a 'Use of System Bad Debt'.

*Type commentary here*

## **Chapter 2.7: FTEs**

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 2.8: Detailed IT**

Please explain:

- The purpose of any costs reported under New Assets (Operational or Non-Operational). This should include a description of the purpose and functionality of any new infrastructure or applications.

*Type commentary here*

## **Chapter 2.9: Business Support**

Please explain:

- Each of the entries in the 'Basis of Allocation'. This should be sufficient for Ofgem to be able to duplicate the calculation with the assistance of the DNO (e.g. it should show the computations for material allocations).
- The costs included under the 'Other' classification for any of the tables.

*Type commentary here*



## Chapter 2.10: Excluded 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.

*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: Cost Mapping

Commentary should specifically include explanation of:

- The means by which Managerial/Accounting Allocations have been carried out for any budget listed where the allocation has split costs totalling £0.5m or higher

We would expect to see only a single point of commentary for each of the allocations requiring explanation in the Commentary.

*Type commentary here*

## Chapter 2.13: Yearly Movements

The commentary on movements in Activities or Cost Types in the reporting year should be included in the Commentary in Chapter 2.2. Commentary in this chapter should relate to any changes to prior year's reported costs in Table 2.13

Commentary should specifically include explanation of:

- Any changes made to the 'reported costs' rows for previous years from those provided by Ofgem.

- Each line reported in the boxes relating to previous years giving a more detailed explanation than that allowed on the table to ensure we understand the reason for any adjustment and can determine how to treat it for comparability purposes. This should included:
  - 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) 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.

The Commentary should concentrate on the reasons for the changes. Since this table is vital for our understanding of how DNO costs can change over time we do not wish to indicate a specific length for the Commentary but instead wish to encourage DNOs to be as forthcoming as possible with reasons for the changes.

<i>Type commentary here</i>
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## **Chapter 2.14: TMA and ESQCR**

Commentary should specifically include explanation of:

- Those local Authorities within the DNO area that have implemented a Permit Scheme in accordance with the TMA.
- An explanation of those admin setup costs and ongoing costs that have been included in the table.
- A brief overview of the ESQCR and ESQCAR costs reported.

We would not expect the commentary to exceed 2 pages (sides).

<i>Type commentary here</i>
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## **Chapter 3.1: Net Debt, Borrowings, and Gearing**

Commentary should specifically include explanation of:

- Whether within the “Analysis of other amounts due to/(from) group companies per Balance Sheet (memorandum)” there are any amounts that are more than one year old. If this is so explain whether or not these amounts should not be considered as part net debt for the purpose of assessing whether the gearing ratio has been exceeded.
- If there are any derivative financial instruments held by a related party that are not reported in the table, quantifying them and stating which debt(s) is being hedged.
- The basis of the allocation of net debt and interest expense to the four specified categories.

- Where the implied profile of financing requirements differs from the summary table adjacent to Table A, explain what the differences are (values, dates and reasons). These might include financing of capex plan, intention to reschedule debt profile etc).

*Type commentary here*

## Chapter 3.2 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. This should include why the rates have changed (e.g. actuarial valuation, utilisation of surplus etc.)
- 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 3.3: Tax Capital Allowances

Commentary should specifically include explanation of:

- The year in which the non-operational assets owned by a related party was acquired, note this must be after 1 April 2005.
- Whether there are any specific additions within each capital allowance pool that are used for IFI activity.
- Whether there has been a disclaimer of capital allowances in any year since 2002/03 and the amounts disclaimed for each year by each capital allowance pool.

*Type commentary here*

## Chapter 3.4: Tax Reconciliation

Commentary should specifically include explanation of:

- Where there are or have been investigations by HMRC into the licensees in the last two years (to the date of the submission), what the investigation was for and the outcome, specifically any changes to reported taxable profits/losses or revisions of capital allowance pools; and any transfer pricing investigations.

*Type commentary here*

## **Chapter 5.0: Network investment overarching commentary**

### **Capital expenditure outturn and drivers**

Please provide commentary (no more than three pages) on:

- levels of actual outturns against the previous reporting year's plans including explanation of any significant deviations
- any major year on year cost and volume movements for LRE and NLRE
- any major update to forecasts since the previous reporting year

*Type commentary here*

### **Capex delivery**

Please provide commentary (no more than two pages) on:

- any major change to resourcing methodology since the previous reporting year (e.g. levels of outsourcing)
- any major shift in procurement strategies since the previous reporting year
- any delivery constraints such as unit cost fluctuations, resources and procurement issues

*Type commentary here*

### **Asset performance and quality of service issues**

Please provide commentary (no more than two pages) on:

- changes to asset risk management policy, systems and processes
- changes in overall asset condition metrics, fault rates and CI and CML performance

*Type commentary here*

### **General guidance for commentary on tables in section 5 of the RRP**

Where commentary is required this is not generally expected to exceed two or three paragraphs for each bullet point (unless stated otherwise).

## Chapter 5.2: DPCR4 Capex Plan

Please provide:

- A description of how forecast capital expenditure has been built up including any assumptions made.
- An explanation of any shift in network risk that the proposed forecast is intended to produce.

<i>Type commentary here.....</i>
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## Chapter 5.3: 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.

<i>Type commentary here.....</i>
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Please provide details of any asset data which cannot be provided by operating voltage:

<i>Type commentary here.....</i>
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## Chapter 5.4: Asset Age Profile

Please provide:

- A description of how average asset lives and standard deviations are derived and updated according to actual lives obtained.

<i>Type commentary here.....</i>
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Please provide details of any asset data which cannot be provided by operating voltage:

<i>Type commentary here.....</i>
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## Chapter 5.6:

## Overhead Line Refurbishment

Please provide:

- A description of what has been assumed to constitute major and minor refurbishment.

<i>Type commentary here.....</i>
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## Chapter 5.7: Vegetation Management

Please explain:

- How the number of structures has been calculated. This should include:
  - What database has been used and how the base data has been determined for input to that database.
  - If the data has not been determined from a database then details of the calculation of the number of structures.

We would expect this section of commentary to be approximately one half of a page (side).

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- 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.

We would expect this section of commentary to be approximately one half of a page (side).

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- 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).

We would expect this section of commentary to be approximately one half of a page (side).

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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.
  - Details of how open and covered conductor are treated.

We would expect this section of commentary to be approximately one half of a page (side).

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### **Chapter 5.8: 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>
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### **Chapter 5.9: Network Analysis – Fault Levels**

Please provide:

- A description of how system fault levels are managed.

<i>Type commentary here</i>
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### **Chapter 5.10: Network Analysis – Non load related forecast asset replacement**

Please provide:

- A description of how remaining useful life has been assessed.

<i>Type commentary here</i>
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