



Distribution network operators
and other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Dear Colleague

Electricity Distribution Price Control Review (DPCR)5: Version 1 of the Regulatory Instructions and Guidance

Ofgem has today published version 1 of the Regulatory Instructions and Guidance (RIGs) documents and excel workbooks. These provide a framework enabling Ofgem to collect data from the DNOs to monitor compliance and assess their performance throughout the DPCR5 period and to inform future price controls. The RIGs documents consist of following four documents:

- Electricity Distribution Price Control Cost and Revenue Reporting RIGs (CRRIGs),
- Electricity Distribution Price Control Network Asset Data and Performance Reporting (NADPR) RIGs,
- Electricity Distribution Price Control Customer Service Reporting RIGs, and
- Electricity Distribution Price Control Glossary of Terms.

This letter sets out our approach to setting connections margins, our views on the allocation of indirects, the way forward and provides consent to remove the obligation for DNOs to provide certain information specified in the RIGs, for the reporting year 2009-10. This consent is in relation to the amount of historical and forecast data provided, the level of detail required, and the deadlines for submission and concerns only the NADPR RIGs and the CRRIGs. We have consented to removing these reporting obligations in order to allow DNOs time to develop their systems to match the format of the new RIGs.

This letter should be read in conjunction with the RIGs open letter we published on 11th March 2010 which also set out the timescales for reporting RIGs data¹ and the letter we published on 31 March 2010 which sets out, amongst other things, the requirements on DNOs to provide commentaries along with the submission of data set out in the RIGs².

Consent

The CRRIGs and the NADPR RIGs state that for each reporting year the DNOs are required to provide a full set of historical reporting data using this version of the workbooks for the full period of DPCR4 i.e. for each year commencing 2005-6. However, for the reporting year 2009-10 we will not require any historical data.

¹ Electricity Distribution Price Control: Regulatory Instructions and Guidance, 11 March 2010

² Notice under Part D of standard condition 49 of the distribution licence – Distribution Services Providers (Ref:42/10), 31 March 2010

The CRRIGs and NADPR RIGs also state that for each reporting year the DNOs are required to provide a full set of forecast reporting data for the five subsequent years. We will not require any forecast data for the 2009-10 reporting year.

In the CRRIGs DNOs are not required to report on detailed connections, as set out in chapter 7, for the 2009-10 reporting year.

Obligations related to cost reporting in the cost and revenue RIGs

Ofgem recognises that the RIGs represent a significant change in the data submissions and that the DNOs require some time to set up their systems to report the data required accurately. We accept that while the DNOs develop new reporting systems, some cost data will not be available from prime records and it will be necessary for the DNOs to provide some of the information on a best endeavours basis for this year. Where this is the case we require a full commentary explaining the methodologies employed to report the costs. We expect that historical data will be required for the 2010-11 reporting year submission, however, we will review the level of detail required for that historical reporting during this year. We will also review our requirements for forecast data to be provided with the 2010-11 reporting year submission.

We have extended the deadline for submissions for this reporting year to allow DNOs additional time to set up their reporting systems in order to align with the new reporting requirements and format. The CRRIGs state that the information must be submitted by 31 July following the end of the reporting year. However, for the 2010 reporting year the deadline for the submission of the workbooks and commentary is 31 October 2010.

In relation to worksheet C3 (calculating RAV additions) and worksheet C5 (the comparison to allowances) we have included the links required and the worksheets will populate with 2009-10 data. For clarity we acknowledge that the 2009-10 reporting year is within the DPCR4 period rather than the DPCR5 period for which these spreadsheets are designed. The tables are included to check the workings in the template in preparation for submissions in the DPCR5 period.

Furthermore worksheets CM17 relating to non-operational properties and CM10 relating to total DG costs are not required for 2009-10 reporting.

Connections margins

A number of queries have been raised regarding our approach to the calculation of connection margins under CRC12, the calculation of margins in the CRRIGs and the treatment of non-operational depreciation.

The CRRIGs by their nature collect cost rather than financial information and as such we consider it appropriate for them to capture non-operational capex rather than depreciation. We recognise that in the short-term lumpy non-operational capex projects may mean that margins are inflated in some years and understated in others.

There are a number of factors that will influence the reported level of margins. These include:

- Forecast uncertainty relating to the level of indirect costs;
- Uncertainty with regards to out-turn connection volumes; and
- The level of non-operational capex.

We do not intend to apply a mechanistic approach in assessing the level of margins including indirect costs. As part of the supporting information that is provided with the data tables we expect DNOs to put forward a calculation of margins including non-operational depreciation rather than non-operational capex. We will consider margins over the longer-

term as well as short-term to smooth out swings in non-operational capex. We will consider DNOs' explanation of other factors that may be having a short-term effect on their margins. The data in the detailed connections spreadsheets allow us to review margins on an annual basis for this element of the costs of completed connection jobs.

Allocation of indirects

We have considered DNOs' concerns regarding the allocation of indirects across all indirect activities rather than just establishing the allocation to non-distribution activities and connections. It is important to allocate indirects across all indirect activities to provide us with the assurance that the allocation of indirects to connections is being done appropriately and consistently over time and to keep our options open in terms of how indirects are treated in benchmarking analysis. We will review how this allocation has worked when we carry out our review of the October RIGs submissions.

Way Forward

Many of the RIGs spreadsheets are interlinked and where possible we are seeking to link relevant spreadsheets. The work to link the spreadsheets is still ongoing and we will seek to complete the work in plenty of time for the 2009/10 submission.

I would like to take the opportunity to thank you all for your assistance in developing the RIGs which has enabled us to publish the RIGs within such tight timescales. We envisage that further amendments may be required to the RIGs following the 2009/10 data submission and ahead of the 2010/11 data submission to incorporate, amongst other things, the outcome of the RPI-X@20 project. However, if you have any queries about completing the RIGs for the 2009/10 data submission please contact Chris Watts on 020 7901 7333.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rachel Fletcher', is positioned above the typed name and title.

Rachel Fletcher
Partner, Distribution