

RIGS - Example Commentary

This is an example template for commentaries against the data in the reporting tables. We intend to develop similar commentary documents for gas distribution, gas transmission and electricity transmission.

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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.

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: Governance of GDN's Reporting Processes

Reliable, compliant information is fundamental to the effectiveness of annual performance reporting and to the price control reviews to which it contributes. A full description of the assurance and governance processes operated by GDNs for each area of reporting is therefore required in the commentary accompanying RRP.

The section should explain specifically

- How each regulatory reporting process is governed within the GDN – who has been involved in producing each table, who has reviewed them and who has approved them for submission to Ofgem
- How awareness of reporting requirements is communicated to the GDN's own staff and third parties involved in producing data
- What systems are used for the capture and reporting of data (physical as well as financial), and how the integrity of data within systems is verified
- Data flows from source systems, and in particular the geographic basis of data capture
- What checks and balances are employed to ensure the completeness and consistency of information reported
- The extent to which information reported for regulatory purposes is aligned with management control information
- The areas where management judgements have needed to be exercised to arrive at estimations or apportionments for regulatory reporting purposes, and a quantification of the sums requiring management judgement for each area of reporting
- The extent to which external auditors have examined and verified information featuring in regulatory reports

This section of commentary may be supported by flow charts and responsibility matrices as appropriate. Information already provided in previous commentary submissions as part of GDP/CR1 need not be repeated, provided cross-referenced in XX submissions.

GDN response to be entered here

3: 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.

GDN response to be entered here

4: 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.

GDN response to be entered here

5: Tax Capital Allowances

Please explain:

- Any adjustments to prior year closing capital allowance pool.

GDN response to be entered here

6: 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.

GDN response to be entered here

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;

GDN response to be entered here

7: 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

8: 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

9: 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 2008/09 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.

GDN response to be entered here

10: 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.

GDN response to be entered here

11: Cash Pension Contributions & Scheme data

A commentary is required to detail any other relevant items identified in the completion of this table.

It **must** specifically include disclosure of and explanation for each of the following:

	Comment:
How the attributions to segments reported have been calculated and how they differ from prior year(s).	
Where the pension scheme encompasses more than one NWO 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 failure score.	
Changes in employer contribution rates across time and the reason for each change.	
Changes in employee contribution rates across time and the reason for each change.	
How the administration costs of each DB pension scheme are met, e.g. paid directly by the licensee, related party or collected through ingoing contributions by the pension scheme; and, if shared between companies in common ownership, the basis of attribution and whether this is consistent across time?	
<p>Provide full details of any salary sacrifice schemes, which should include:</p> <p>Date arrangements introduced and any subsequent changes.</p> <p>To which group of employees it applies.</p> <p>What percentage of members participate.</p> <p>How the reduction in salary is calculated.</p> <p>Whether the saving in employers National Insurance contributions is shared with employees; and, if so, explain the basis.</p>	

Identify any differences between the assumptions used to value the past service liabilities and those used to calculate future contributions. Detail any differences, including whether the differences apply to contributions to meet future accruals, deficit recovery contributions or both.	
Comment on any significant differences between a scheme's current investment strategy and its benchmark strategy, or any agreed future changes to a scheme's investment strategy.	
If a scheme has closed, detail what pension benefits are provided for subsequent entrants.	
Where the employer's deficit recovery contributions (or contribution reductions for surplus) are expressed as fixed monthly amounts, detail the annual amounts.	
Indicate if there is a significant difference in the remaining service life between non-distribution and distribution members, and provide both numbers. Where the mortality tables used needs further detail – supply this here as necessary.	
State the basis on which scheme's investment management advisors are remunerated including success factors and why these fees have varied year on year.	
Where any change(s) is made to prior year membership data these should be identified and detailed.	
Provide complete details of, and on what basis, any scheme deficit has been attributed across licensee's regulated business, licensee's non-regulated business segments, affiliates and other sponsoring employers and specifically other licensees.	
Explain how each pension schemes' administration costs are met, e.g. by	

licensee, related party or pension scheme; and, if shared, how.	
Detail all bulk transfers and scheme mergers from corporate transactions explaining how the valuations of assets and liabilities have been determined, e.g. actuarial assessment of assets and liabilities of relevant members.	
Detail the value of scheme assets and liabilities at the time of any merger or bulk transfer relating to that merger or bulk transfer.	
Identify any differences between the assumptions used to value the past service liabilities and those used to calculate future contributions. Detail any differences, including whether the differences apply to contributions to meet future accruals, deficit recovery contributions or both.	
If the opening balances of scheme assets are revised, correct the previous year's data rather than adjusting in the current year. Where any changes are made to prior year data, these should be detailed.	
For all scheme transfers in, explain the reasons for transfer and whether the transfer was fully funded.	
Have member contribution rates been reduced or increased since 2005? If so, why and provide the changes.	
Has the scheme or the licensee ever restricted any new (or existing) elements of salaries to make them non-pensionable, or restricted salaries for pension scheme members relative to non-members? If so, provide details.	
Has the scheme or the licensee ever offered cash, or other benefits, in return for employees giving up their protected rights? Have there been any other modifications to protected rights terms? If so, provide details, including the percentage of eligible employees who accepted.	

Provide the period over which existing deficit as at the last triennial valuation is being funded as agreed with the Trustees and accepted by The Pension Regulator (TPR) in the deficit recovery plan and state which triennial valuation this refers to.	

GDN any further response to be entered here

Summarise the DB Scheme benefits in the following format:

Benefit:	Comment:
Type of benefits	
Contracted in or out of S2P	
Normal retirement age (age when unreduced pension is payable)	
Definition of pensionable pay (specify any deductions in particular)	
Member contributions	
Accrual rate for member benefits	
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	
Dependants' provision	
Dependant's pension on death after retirement	
Ill-health benefits	
Lump sum benefit on death in service	
Pension increases in retirement (for excess pension over GMP)	
Pension increases in deferment (excess pension over GMP)	

Summarise any changes to DB scheme benefits here:

Change:	Comment:
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Describe the change	
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	
Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	
For decreases in member contribution rates, state whether the decrease was directly met by an equivalent increase in employer contribution rates at the same time.	

Summarise the actuarial assumptions made including:

Assumption:	Comment:
Pre-retirement nominal rate of return	
Pre-retirement real return above price Inflation	
Pre-retirement real return above salaries	
Promotional salary scale (if not in salary assumption)	
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	
Post-retirement real return above price inflation	
Post-retirement real return above pension increases	
Proportion of pension commuted at retirement	
Mortality table used to value current	

pensioners	
Expectation of life at 60 for male pensioner	
Expectation of life at 60 for female pensioner	
Mortality table used to value future pensioners	
Expectation of life for male who will be aged 60 in 20 years	
Expectation of life for female who will be aged 60 in 20 years	

GDN any further actuarial information response to be entered here

12: 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 included in the Table 2.11.

GDN response to be entered here

13: 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 1 April 2011 to 31 March 2012. Compare actual spend in each material area of expenditure with the Capex and Repex allowances given for this time period.
- For existing and additional tables added for XX 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. Transparency and understanding of the respective cost drivers is important per se.
- 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
