Annex C – Revenue and financial issues DRAFT

1. Introduction

Scope of this document

1.1.   This document is part of the regulatory instructions and guidance (RIGs) for
RIIO-ED1. The term RIGs refers to a collection of documents – our instructions and
guidance, and the reporting packs and commentaries the DNOs have to fill out.

1.2.   Figure 1.1 shows all the instructions and guidance documents for the RIIO-
ED1 RIGs. This document, circled in Figure 1.1, is one of a series of annexes
containing instructions and guidance. They provide electricity distribution network
operators (DNOs) with information on how to fill in the reporting packs and
commentaries that they are required to submit to us.

Figure 1.1: Map of RIIO-ED1 instructions and guidance
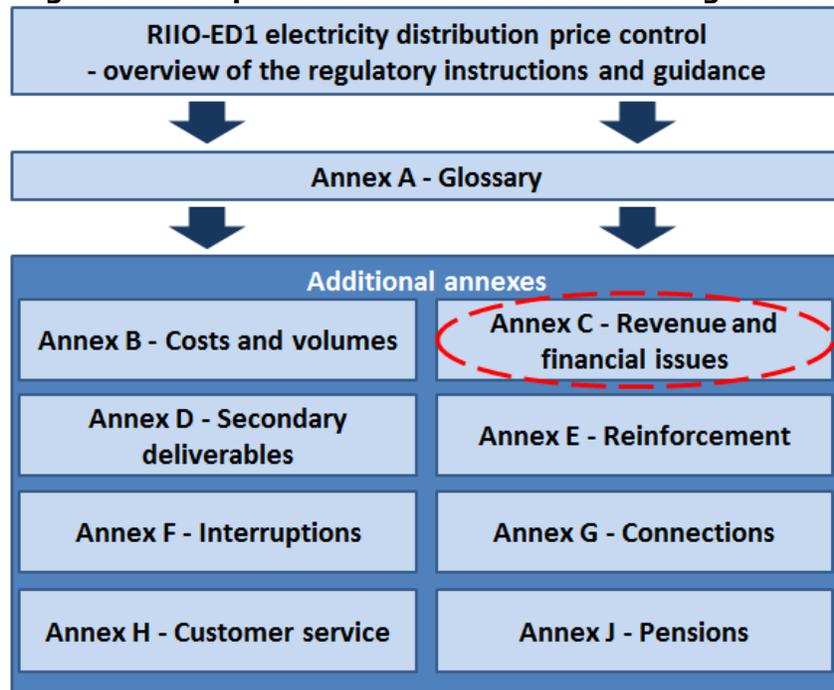
1.3.   This document should be read in conjunction with:

- the RIIO-ED1 electricity distribution price control – overview of the
  regulatory instructions and guidance document
- the associated Microsoft Excel® reporting packs named "Revenue
  Reporting Pack" and "Financial Issues Reporting Pack"
- the associated commentaries [to be developed].

2. Instructions for completing the Revenue Reporting Pack

Introduction

2.1.   The purpose of this chapter is to provide instructions and guidance for the completion of the Revenue Reporting Pack.

2.2.   The reporting pack allows us to effectively monitor the licensees compliance with the Charge Restriction Conditions related to the calculation of Allowed Distribution Network Revenue (AR). It also facilitates the submission of uniform and comparable information.

2.3.   AR is calculated using the following inputs:

- Base Demand Revenue (BR)
- Incentive revenue (IP)
- Allowed Pass-Through Items (PT)
- Network Innovation Allowance (NIA)
- Low Carbon Networks Fund (LCN)
- Connections activities adjustments (AUM and CGSRA)
- DPCR4 residual distribution losses incentive value (PPL)
- Correction factor for over or under recoveries of revenue (K).

2.4.   In addition, licensees can derive revenue from the following distribution business activities, which sit outside of the RIIO-ED1 price control:

- Legacy Metering Equipment provision
- Directly Remunerated Services
- Out of area networks
- De Minimis Business
- Data Services associated with meter point administration.

2.5.   The Revenue Reporting Pack template will be provided by Ofgem. It will be populated with relevant values from the charge restriction conditions of the licensee's licence. Some values (contained in worksheet *R5a - Links*) will be populated by linking to other reporting packs submitted as part of the RIGs. In addition licensees are required to directly input values (contained in worksheet *R5 – Input Page*). Detailed instructions for these input values are given below.

Accompanying information

2.6.   Any additional information which the licensee considers should be provided to explain or describe information included in the reporting pack should be submitted in the commentary template.

2.7.   Where a licensee becomes aware of any query or concern regarding revenue reporting requirements, whether of specific or general relevance, the matter must be referred to Ofgem at the earliest opportunity.

General instructions

2.8.   The licensee must ensure that the Revenue Reporting Pack is accompanied by a report addressed to the Authority from an Appropriate Auditor. This report must state that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the Regulatory Year under report and which sets out his findings. The licensee must at its own expense enter into a contract of appointment with the Appropriate Auditor which includes a requirement for the Agreed Upon Procedures to be conducted in accordance with any relevant auditing standards in force at the time at which those procedures are carried out. The licensee must co-operate fully (and must ensure, so far as it can, that any Affiliate or Related Undertaking of the licensee co-operates fully) with the Appropriate Auditor so as to enable him to complete the Agreed Upon Procedures and make the report to the Authority.

2.9.   Licensees must only make entries in yellow input cells as per the detailed guidance provided in this document.

2.10. All amounts relating to revenue and expenditure must be entered on an accruals (as opposed to cash) basis unless otherwise stated.

R1 - schematic

2.11. This worksheet shows how the values in this reporting pack are used to calculate Allowed Distribution Network Revenue. This is then reconciled to the total revenue reported in the Regulatory Accounts for the regulatory year under report.

R2 – Changes log

2.12. Any amendments (values or presentation) that are made to the reporting pack must be stated here, including the date those changes were made.

R3 - Data change log

2.13. The licensee must record any changes that it has made to data that has previously been submitted and the date this change was made. A reason for the change should be included.

R4 - Licence Condition Values

2.14. This worksheet contains all values from the licence that are needed to calculate Allowed Distribution Network Revenue. These values are automatically populated from the data in the worksheet named *Licence Values*.

2.15. In order for the information to be populated for the relevant licensee, the licensee must select its name from the dropdown box at the 'Basic Information' section of *R5 - Input Page*.

R5a - Links

2.16. This worksheet contains values that are needed to calculate Allowed Distribution Network Revenue that are submitted annually in other RIGs reporting packs. These values are reported in the following reporting packs:

- Costs and Volumes Reporting Pack
- Interruptions Reporting Pack
- Customer Service Reporting Pack
- Connections Reporting Pack.

2.17. Licensees must ensure that the values in this link table to the values submitted in the relevant reporting packs listed above. This ensures consistency of information between the Revenue Reporting Pack and other reporting packs.

2.18.   The values in this worksheet automatically link to the *'R5 Input Page'*.

R5 - Input Page

2.19. This worksheet consolidates all inputs required in this reporting pack to calculate Allowed Distribution Network Revenue. In summary, it brings together:

- values from the R5a links worksheet, which is actual data submitted in other RIGs reporting packs
- fixed values defined in the licence
- manual inputs the licensee is required to make (in yellow cells).

2.20. These instructions focus on providing guidance to the licensee on how to complete the manual input cells. For guidance on completing the data in the *R5a Links* worksheet the guidance for the relevant RIGs reporting pack should be referred to.

2.21. Figures manually entered must be entered correct to 3 decimal places and, unless otherwise stated in the licence, in nominal prices.

Basic Information

2.22. The licensee must enter the relevant company name and regulatory year that is being reported on.

General information needed for calculations

2.23. The information in this section of the worksheet is used in calculations from a number of licence conditions.

Retail Prices Index

2.24. No input is required from the licensee. The Retail Prices Index (RPI) for the regulatory year under report will be entered by Ofgem before the reporting pack is issued to the licensee each year. RPIA is calculated with reference to the base year of as the growth factor of RPI for the Regulatory Year under report over RPI for 2012-13.

Retail Prices Index Forecast Growth Rate, by calendar year

2.25. The Retail Prices Index Forecast Growth Rate by calendar year (GRPIFc) is the forecast for RPI used in calculations. It must be entered by the licensee based on the last November's edition of the HM Treasury's publication "Forecasts for the UK Economy".[1] For example, for the Revenue Reporting Pack which is submitted in July 2016 the licensee must record GRPIFc in the row named 'from November 2015'.

Price index adjustment factor

2.26. No input is required from the licensee. The price index adjustment factor (RPIF) is calculated based on the information inputted for GRPIFc and RPIA.

Tax rate true-up

2.27. No input is required from the licensee. The Corporation Tax rate (CT) set by HMRC that is applicable to the regulatory year under report will be entered by Ofgem before the reporting pack is issued to the licensee each year.

Present value factor

2.28. No input is required from the licensee. The Vanilla Weighted Average Cost of Capital (WACC) applicable to the regulatory year under report is an output of the

---

[1] Forecasts for the UK Economy

Price Control Financial Model (PCFM). It will be entered by Ofgem before the reporting pack is issued to the licensee each year.

2.29. The present value adjustment is equal to one plus WACC.

Specific inputs by licence condition

2.30. The information in this section of the worksheet is used in the worksheets *R6 to R13*.

CRC 2A. Calculation of Allowed Distribution Network Revenue

2.31. The modification to revenue from the Annual Iteration Process (MOD) is the adjustment to the Opening Base Revenue Allowance from the Annual Iteration Process. It is an output of the PCFM. MOD will be directed by the Authority by 30 November each year or as soon as practicable thereafter. The licensee must input the value of MOD directed by the Authority. The Authority will direct the value of MOD applicable to the regulatory year under report in the preceding regulatory year. MOD is zero for 2015-16.

2.32. Regulated Distribution Network Revenue (RD) is the actual revenue recovered by the licensee from use of system charges in the regulatory year.

2.33. Combined Allowed Distribution Network Revenue for 2014-15 is the allowed revenue set for the final regulatory year of the DPCR5 price control period (2014-15).

2.34. The value of the interest rate adjustment (PR) must to be entered where the Authority has determined the interest rate adjustment which will be applied in the calculation of the correction factor (K) for over and under recovery of revenue. The Authority may determine the value of PR through the provisions of Part F or CRC 2A (Restriction of Allowed Distribution Network Revenue). Under normal circumstances the correction factor will be automatically calculated in the *R13 Correction Factor* worksheet.

2.35. The Average Specified Rate for the regulatory year under report will be entered by Ofgem before the reporting pack is issued each year.

CRC 2B. Calculation of Allowed Pass-Through Items

2.36. Specified costs that are predominantly outside of the licensees' control may be passed through to consumers. These costs are defined in CRC 2B. The majority of inputs needed for the calculation of the output of CRC 2B are reported in the Costs and Volumes Reporting Pack. These are:
- Licence fee payments (LFA)
- Business Rates payments (RFA)

- Pass-through Transmission Connection Point Charges incurred (PTPA)
- Smart Meter Communication Licensee Costs incurred (SMCA)
- Smart Meter Information Technology Costs incurred (SMIA)
- Ring Fence Costs incurred (RFA)
- Shetland Variable Energy Costs incurred (SECA) (for SSEH only).

2.37. The value of the Smart Meter Information Technology Costs adjustment following the SMIT review (SMITR) must be entered for 2021-22 and 2022-23. The value will be determined by Ofgem following a review.

2.38. SSEH must also enter the value of Shetland integrated plan costs (UNC). These costs are recoverable through the mechanism outlined in CRC 2Q (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland). The Authority will determine the value of UNC for each regulatory year.

CRC 2C. Broad Measure of Customer Service Adjustment

2.39. The Broad Measure of Customer Service Adjustment adjusts the licensee's revenue to reflect performance against its customer service obligations. Some of the inputs needed for the calculation of the output of CRC 2C are reported in the Customer Service Reporting Pack. These are:

- Supply interruptions actual score (SIAS)
- Proportion of Unsuccessful Calls (PUC)
- Connections actual score (CAS)
- General enquiries actual score (GAS)
- Percentage of Complaints Unresolved after day plus one (PCUDPO)
- Percentage of Complaints Unresolved after day plus 31 (PCUDPT)
- Percentage of Energy Ombudsman findings (POF).

2.40. The target values recorded here are set out in the licence. These are:

- Supply interruptions target score (SIIM)
- Connections target score (CIM)
- General enquiries target score (GIM).

2.41. Industry target term (TCM).The licensee is required to enter values for:

- *Broad measure of customer service revenue from DPCR5 (BMt-2)* - the revenue adjustment that reflects the licensee's performance in regulatory years 2013-14 and 2014-15, as calculated under CRC 8 of the licence which was in force at 31 March 2015.
- *Stakeholder Engagement reward (SE)* - the positive revenue adjustment that may be determined by the Authority in accordance with the Stakeholder Engagement Incentive Guidance. The value of the adjustment should be entered in the regulatory year in which the performance being assessed took place. For example, if the Authority determines by 30 November 2016 that there should be a positive adjustment, this adjustment should be recorded for the regulatory year 2015-16.

CRC 2D. Adjustment of licensee's revenues to reflect interruptions-related quality of service performance

2.42. Licensees are incentivised on the number and length of their network supply interruptions. CRC 2D outlines the calculation of the value of the incentive. Some of the inputs needed for the calculation of the output of CRC 2D are reported in the Interruptions Reporting Pack. These are:

- The Unplanned (CIA), pre-arranged (CIB), transmission (CIC), DG (CID) and residual (CIE) interruptions terms
- The Unplanned (CMLA), pre-arranged (CMLB), transmission (CMLC), DG (CMLD) and residual (CMLE) minutes lost terms
- The severe weather payments made (SWPM)
- The severe weather payments due (SWPD)
- The normal weather payments made (NCPM)
- The normal weather payments due (NCPD).

2.43. The Failure to Pay Penalty Rate recorded here is set out in the licence.

2.44. The licensee is required to enter values for:

- *Quality of service performance revenue adjustment in DPCR5* - the revenue adjustment that reflects the licensee's performance in regulatory years 2013-14 and 2014-15, as calculated under CRC 8 of the licence which was in force at 31 March 2015.
- *Pre-arranged interruptions in DPCR5 (regulatory years 2011-12 to 2014-15)* - the number of customers interrupted per year arising from pre-arranged incidents derived in accordance with CRC 8 of the licence which was in force at 31 March 2015. This is needed to calculate the target for pre-arranged customers interrupted (TAP).
- *Pre-arranged minutes lost in DPCR5 (regulatory years 2011-12 to 2014-15)* - the duration of interruptions from pre-arranged incidents derived in accordance with CRC 8 of the licence which was in force at 31 March 2015. This is needed to calculate the target for the duration of pre-arranged customers interrupted (TBP).
- *One-off exceptional event payments (OOEE)* - payments made under Regulations 5, 6 or 8 by the licensee to customers in respect of one or more exceptional events that meet the exceptionality requirements set out in Appendix 3 of CRC 2D.

CRC 2E. Incentive on Connections Engagement

2.45. Licensees are incentivised to engage and meet the needs of major connections customers. The licensee will be penalised if it fails to meet minimum requirements outlined in the Incentive on Connections Engagement Guidance.

2.46. The licensee is required to enter the value of the incentive on connection engagement (ICEO) directed by the Authority for each regulatory year. The value will be zero or negative each year. The value of the adjustment should be entered in the regulatory year in which the performance being assessed took place.

CRC 2F. Time to Connect Incentive

2.47. The Time to Connect Incentive incentivises the licensee to reduce connection times for minor connections. Some of the inputs needed for the calculation of the output of CRC 2F are reported in the Connections Reporting Pack. These are:

- Time to Quote performance (TQAP and TQBP)
- Time to Connect performance (TCAP and TCBP).

2.48. The target values recorded here are set out in the licence. These are:

- *Time to Connect target terms (TCAT and TCBT)* - the target time taken in working days from LVSSA and LVSSB connection offer acceptance to completion for each regulatory year.
- *Time to Quote target (TQAT and TQBT)* - the target time taken in working days to produce a LVSSA and LVSSB quotation for each regulatory year.

2.49. The targets have only been set for the first four years of the RIIO-ED1 price control period. The licensee is therefore required to enter the value of the targets, as determined by the Authority, for the final four regulatory years of the RIIO-ED1 price control period.

CRC 2G. The Losses Discretionary Reward

2.50. This represents the licensee's award against the criteria set out in the Losses Discretionary Reward Guidance Document (LDRGD). The Authority will determine the value of the losses discretionary reward (LDRO):

- by 30 November 2016 in respect of the first tranche
- by 30 November 2018 in respect of the second tranche
- by 30 November 2020 in respect of the third tranche.

2.51. The licensee must enter the value of the reward, as determined by the Authority, for the regulatory years in which the Authority makes its determination.

CRC 2H. The Network Innovation Allowance

2.52. The Network Innovation Allowance (NIA) provides the licensee with funding for small-scale innovation projects. Some of the inputs needed for the calculation of the output of CRC 2H are reported in the Costs and Volumes Reporting Pack. These are:

- Eligible NIA Expenditure (ENIA)
- NIC Eligible Bid Preparation Costs (BPC).

2.53. The pass-through factor (PTRA) is set at 0.9 in the licence.

2.54. The licensee must enter the value of Unrecoverable Expenditure (NIAR). This is the amount of expenditure determined by the Authority to be unrecoverable by the

licensee in accordance with provisions set out in CRC 2H and the NIA Governance Document.

CRC 2J. Low Carbon Networks Fund

2.55. The Low Carbon Networks Fund was an annual competition for funding for larger-scale innovation projects in DPCR5. Although the competition has now ended some funding is still recoverable through the mechanism outlined in CRC 2J.

2.56. The licensee must enter the value of the:

- Second Tier and Discretionary Funding Mechanism amount (LCN2)
- First Tier Funding Mechanism amount (LCN1).

2.57. These are determined in accordance with CRC 2J Part C and the LCN Fund Governance Document.

CRC 2K. Margins on licensee's Connection Activities

2.58. AUM is the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction issued by the Authority, one year after the licensee has received that direction. A Clawback Direction requires the licensee to make repayment, for some or all, of the difference between the unregulated margin and the level of margin specified for the relevant market segment of the local connections market where the Legal Requirements Test has ceased to be satisfied in accordance with the definition given in Part D of CRC 2K.

2.59.   Where a clawback direction has been issued the licensee must enter the value of AUM.

CRC 2L. Revenue adjustments in respect of performance failures

2.60. There is a cap on the licensees exposure to payments specified in Standard Condition 15A (Connection Policy and Connection Performance). These are payments that have been made by the licensee to customers in respect of failures to meet the requirements of the Connection Regulations and Distributed Generation Connection Standards.

2.61. Connections guaranteed standards payments made (CGSPM) is the total amount of payments in the regulatory year and must be entered by the licensee.

CRC Chapter 5: Other revenue restriction related conditions

2.62. The information in this section is used in the reconciliation to regulatory accounts. The information is reported under the Costs and Volumes Reporting Pack.

R6 - Base Demand Revenue

2.63. No input is required from the licensee. This worksheet calculates Base Demand Revenue (BR) in accordance with the formula in CRC 2A Part C. It requires the following inputs:

- Opening Base Revenue Allowance (PU)
- the modification to revenue from the Annual Iteration Process (MOD)
- the revenue adjustment for the true-up of the RPI forecast (TRU)
- the price index adjustment factor (RPIF).

2.64. PU, MOD and RPIF are auto populated from other worksheets in the reporting pack. TRU is calculated in this worksheet.

R7 - Output Incentives

2.65. No input is required from the licensee. This worksheet calculates the value of the incentive revenue adjustment (IP). It is the sum of the:

- broad measure of customer service revenue adjustment (BM)
- interruptions-related quality of service incentive revenue adjustment (IQ)
- incentive on connections engagement revenue adjustment (ICE)
- Time to Connect Incentive revenue adjustment (TTC)
- losses discretionary reward scheme revenue adjustment (LDR).

2.66. The terms above are calculated in this worksheet through a number of calculations. The values required in these calculations are auto populated from other worksheets in the reporting pack.

R8 - Pass-Through Items

2.67. No input is required from the licensee. This worksheet calculates the Allowed Pass-Through Items revenue adjustment (PT). It is the sum of the following:

- Licence fee adjustment (LF)
- Business Rates adjustment (RB)
- Transmission Connection Point Charges adjustment (TB)
- Smart Meter Communication Licensee Costs adjustment (SMCA)
- Smart Meter Information Technology Costs adjustment (SMIT)
- Ring Fence Costs adjustment (RF)
- Shetland Variable Energy Costs (SEC)
- Shetland integrated plan costs (UNC).

2.68. The values for the terms listed above are calculated in this worksheet using information auto populated from other worksheets in the reporting pack. Note, Shetland Variable Energy Costs and Shetland integrated plan costs are only applicable to SSEH.

R9 - Network Innovation Allowance

2.69. No input is required from the licensee. This worksheet calculates the allowed Network Innovation Allowance (NIA) adjustment. It requires the following inputs:

- Unrecoverable Expenditure (NIAR)
- Pass-through factor (PTRA)
- Eligible NIA Expenditure (ENIA)
- Eligible NIC Bid Preparation Costs (BPC)
- the NIA Percentage (NIAV)
- Base Demand Revenue (BR).

2.70.   The values for the terms listed above are auto populated from other worksheets in the reporting pack.

R10 – Low Carbon Networks Fund

2.71. No input is required from the licensee. No input is required from the licensee. This worksheet calculates the Low Carbon Networks Fund revenue adjustment (LCN). It requires the following inputs:

- Second Tier and Discretionary Funding Mechanism amount (LCN2)
- First Tier Funding Mechanism amount (LCN1).

2.72. The values for the terms listed above are inputs to *R5a – Input Page*.

R11 - Connections performance standards payments

2.73. No input is required from the licensee. This worksheet calculates the connections performance standards payments adjustment (CGSRA). It requires the following:

- the Connection Guaranteed Standards Payments Made (CGSPM)
- the total connection guaranteed standards revenue exposure (TCGSR).

2.74. The values for the terms listed above are inputs to *R5a – Input Page* and *R4 – licence condition values*, respectively.

R12 - DPCR4 residual distribution losses incentive

2.75. No input is required from the licensee. The calculation of the DPCR4 residual distribution losses incentive (PPL) in respect of each regulatory year is set out in the Authority's March 2014 determination letter.[2]

2.76. The values determined are in 2012-13 prices. This worksheet calculates the final value of PPL used in the calculation of Allowed Distribution Network Revenue by replicating the formula in the direction issued.

R13 - Correction Factor

2.77. No input is required from the licensee. This worksheet calculates the correction factor (K) which is used to account for over or under recovery of revenue in any regulatory year. It requires the following inputs:

- Regulated Distribution Network Revenue (RD)
- Allowed Distribution Network Revenue (AR)
- Average Specified Rate (I)
- Any directed value for the interest rate adjustment (PRDIR).

2.78. The the terms listed above are auto populated from other worksheets in the reporting pack.

R14 – Allowed revenue summary

2.79. The worksheet brings together the values calculated in this reporting pack in order to calculate Allowed Distribution Network Revenue.

2.80. No input is required from the licensee.

R15 - Reconciliation to Regulatory Accounts

2.81. This worksheet requires the licensee to reconcile the total revenue reported in this reporting pack (Regulated Distribution Network Revenue (RD) plus other revenue items allowed under the licence) to the total revenue reported in the Regulatory Accounts listing all reconciling items. An error message is shown on the worksheet if the reconciled totals do not match.

2.82. Other revenue items, which fall outside of Regulated Distribution Network Revenue but are included in the Regulatory Accounts comprise:

---

[2] Direction pursuant to paragraph 7.7 of CRC 7 of the Electricity Distribution Licence (March 2014)

- Network Innovation Competition (NIC) payments received from System Operator (SO)
- Legacy Metering Equipment charges
- Directly Remunerated Services revenue
- Network Asset Secondary Deliverables incentive/penalty
- Charging outside the Distribution Services Area (Out of Area Charges)
- De Minimis Business of the licensee
- Data Services revenue.

2.83. The licensee may list other reconciling items under 'other adjustments' and provide information related to these in the commentary.

Licence values

2.84. The worksheet contains fixed data taken from the charge restriction conditions of the electricity distribution licence. The data in this worksheet automatically populates *R4 - licence condition values*.

2.85. No input is required from the licensee.

3. Instructions for completing the Financial Issues Reporting Pack

Introduction

3.1.   The purpose of this chapter is to provide instructions and guidance on the completion of the Financial Issues Reporting Pack. The information input into these worksheets will be used to derive inputs to the Price Control Financial Model (PCFM) and tax clawback workbook as well as recording detailed pension, debt and tax information. The tables also reconcile cost data collected in the Costs and Volumes Reporting Pack to the audited regulatory accounts.

3.2.   The reporting pack facilitates the submission of uniform and comparable financial information from licensees on a consistent basis over RIIO-ED1. It also adjusts the net debt and interest figures for the purposes of the tax clawback and enables comparison of actual tax pool allocations against final determinations to inform the setting of capital allowances for the next price control.

General instructions

3.3.   Licensees should submit audited numbers (where instructed) in £m. Error checks (orange cells) to reconcile detailed breakdowns to Regulatory Accounts totals are correct to one decimal place with the exception of the check in *F8-Reconciliation to Regulatory Accounts*, which is correct to the nearest whole number. This allows a greater tolerance in the reconciliation between total expenditure as per the Regulatory Accounts and total expenditure as per the Costs and Volumes Reporting Pack.

3.4.   All values in this reporting pack are reported in nominal prices with the exception of the cost figures in *F5 - Allocation to Tax Pools*, which must be reported in 2012-13 prices.

3.5.   Forecast data is only required in *F3 – Financing Requirements* for the twelve months which follow the regulatory year that is being reported.

Additional information required

3.6.   The following additional information is required:
- Corporation Tax return (CT600) and supporting tax computations for the licensee's last statutory accounting financial year.
- Final agreed corporation tax return for all years closed by HMRC in the regulatory year and up to the date of submission.
- Audited Annual Pension Scheme accounts.

- Copy of the most recent certification by the senior accounting officer that is prescribed in FA2009, which certifies annually that the accounting systems for the company and its subsidiaries are adequate for the purpose of accurate reporting of taxes and duties. This may be for the group in which the licensee is a subsidiary.

Definitions needed for the Financial Issues Reporting Pack

3.7.   The definitions for the following terms can be found in "Annex A – Glossary":

- Accounting standards
- Alternatives
- Customer contribution
- Contingent pension asset costs
- CT600
- Currency overlay
- Currency Swaps
- Debt cap disallowance
- Deferred revenue expenditure
- Defined Benefit pension scheme (DB)
- Defined Contribution pension scheme (DC)
- Easements
- Environmentally beneficial technologies
- ESPS
- Fair value
- Fixed
- Floating
- Free Cashflow
- FRS 101 / 102
- Funds from Operations
- Global Tactical Asset Allocation (GTAA)
- International Financial Reporting Standards (IFRS)
- Interest Rate Swaps
- Long life assets pool
- Net Debt
- Net Interest
- Pensionable pay
- Pension deficit
- Pension deficit repair payments
- Pension Protection Fund (PPF)
- Pension Scheme Administration Costs
- PPF levy
- Profit and Loss / Statement of comprehensive income
- Related Parties
- Regulatory Asset Value (RAV)
- Regulatory fraction
- Regulatory Tax Losses
- Salary sacrifice scheme
- Schedule 23 FA2003
- Stakeholder pension & Personal Accounts
- Supranational
- Tax Clawback Calculation

- Triennial valuation (Pensions)
- Undrawn facilities

FI Cover

3.8.   The licensee should select its name from the drop-down list in cell D3.

FI Changes Log

3.9.   Licensees should complete the changes log worksheet by logging any changes that are made to the reporting pack template before submission eg. correcting an identified error.

F1 – Financial Statements

3.10. The purpose of this worksheet is to obtain a standard form of each licensee's Income Statement, Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows, consistent with the Regulatory Accounts for the regulatory year being reported and the prior year. It is the reference point for the reconciliation of certain audited amounts to costs reported elsewhere within the suite of reporting packs.

3.11. This worksheet must be populated from, and agree to, the entity's audited Regulatory Accounts for the relevant year. Further specific guidance:

- Except where stated below, each row of the table should be completed for the individual licensee for the regulatory year being reported.
- Where any additional items need to be included and there isn't space within the statements please ensure that these are detailed in the commentary.
- Indicate whether accounts will be prepared under FRS 101/102 or EU-IFRS accounting standards.

Income Statement and Statement of Comprehensive Income (SOCI)

Income Statement

3.12. These rows cover the licensed entity's Income Statement and must agree to the audited Regulatory Accounts.

3.13. The reconciliation of regulated distribution revenue to total revenue as per the regulatory accounts is included in *R14* of the Revenue Reporting Pack.

3.14. The segmental split of Operating Profit before Finance Costs and Tax must be shown for distribution activities and other non-regulated activities.

SOCI

3.15. The Statement of Recognised Gains and Losses under UK GAAP will be known as the Statement of Comprehensive Income (SOCI) under FRS 101/102 and EU-IFRS in the 2015-16 regulatory year.

3.16. Any dividends paid during the regulatory year must be disclosed in this section.

Statement of Financial Position

3.17. These rows cover the licensed entity's Statement of Financial Position and must agree to the audited Regulatory Accounts.

3.18. Short term deposits, prepayments and other similar items should be recorded in the 'Other' category under current assets. If there are multiple categories recorded under 'Other' please include a breakdown in the commentary.

3.19. The segmental fixed asset analysis that follows the Statement of Financial Position summarises asset additions, asset disposals, customer contributions, capitalised interest and asset revaluations is required to reconcile totex figures in the RIGs to audited amounts in the Regulatory Accounts.

3.20. Unless stated otherwise enter book values. Where disposals of assets have been made to an affiliate then market values must be entered.

Statement of Cash Flows

3.21. These rows cover the licensed entity's Statement of Cash Flows and must agree to the audited Regulatory Accounts.

3.22. Net debt calculated by the cash flow statement should agree to net debt as per *F2 - Net Debt & Interest*.

F1a – Income Statement, F1b – SOFP and F1c – Cashflow

3.23. The purpose of these worksheets is to summarise the licensee's Income Statement, Statement of Financial Position and Cash Flow in the same format as *F1 – Financial Statements* for RIIO-ED1. This enables comparisons to be undertaken across the eight year price control period.

3.24. The current year columns for the Income Statement, Balance Sheet and Cash Flow in *F1* should be copied and pasted as values into the corresponding current year columns in *F1a, F1b and F1c*.

3.25. The prior year columns must reflect the final figures submitted to Ofgem for those years reflecting any agreed restatement(s). The relevant cells must be highlighted in yellow and comments should be inserted to explain the nature of the restatement(s).

3.26. Full details of the restatement and the approvals that have been acquired ie, from the company auditors and Ofgem must be disclosed in the commentary.

F2 - Net Debt & Interest

3.27. The purpose of this worksheet is to allow the licensee to provide detailed information on their net debt position and an analysis of interest income and expenses. This information is collected for ongoing monitoring of the licensee's financial stability and to feed into *F6 – Tax Clawback*, which adjusts the net debt and interest to the regulatory definitions.

3.28. Where debt is of a short term/current nature (and can therefore be replaced several times in a year) the balance outstanding at the year end must be entered. The interest rate stated must be the rate that is applicable to the tranche which is outstanding at the regulatory year end.

3.29. Further specific guidance:

- The first table is an auto-populated reconciliation between the sub-totals from the figures input in Sections A to F and total net debt as per the balance sheet from *F1*.
- For Sections A to F, balance sheet debits and cash must be entered as negative values and balance sheet credits must be entered as positive values.
- *Table A: "Schedule of cash, short term deposits and overdrafts"* - enter year end values as per the Regulatory Accounts.
- *Table B: "Analysis of External borrowings, bonds, loans and finance leases"* - complete the name of the lender, the nature and a description of the instrument, the redemption date, the rate of interest, and the balance at the regulatory year end.
- *Table C: "Analysis of loans from other group companies"* - complete the name of the legal entity providing the financing, the nature and a description of the instrument, the redemption date, the rate of interest, and the balance at the regulatory year end.
- *Table D: "Analysis of loans to other group companies"* - complete the name of the borrower, the nature and a description of the instrument, the redemption date, the rate of interest, and the balance at the regulatory year end.
- *Table E: "Analysis of other amounts due to/(from) group companies per Balance Sheet"* - complete the name of the counterparty, the nature of the balance and the receivable/payable outstanding at the regulatory year end. Please note that this table does not feed into the net debt calculation and is for information only.

- *Table F: "Guarantees given on behalf of other group companies"* - complete any guarantees (including joint and several) given on behalf of any other group companies/related parties, listing the name of the company guaranteed, the amount guaranteed and the date of the consent or derogation in respect thereof from the Authority.
- *Table G*: Summarises the value of derivatives as detailed in tables H to L. No input is required.
- *Tables H to L: "Financial derivatives in existence"*- complete the description of any derivative financial instruments (excluding embedded derivatives) and the exposure hedged against at the year end relating to or in respect of any loan or balance disclosed under the prescribed headings.
- *Tables M to N:"Interest Summary"* - these tables provide a detailed split of the finance costs and expenses as per the Income Statement and identify items that will be stripped out of the regulatory calculation of net interest in *F6 - Tax Clawback Data*.

F3 - Financing requirements

3.30. The purpose of this worksheet is to give an indication of the licensees' forecast financing requirements. It requires provision of a high level cash flow forecast for a period of twelve months following the end of the regulatory year being reported and the forecast debt and equity financing requirements over the same period. The forecast should agree to the information provided with the statement of factors that accompanies the availability of resources certificate submitted under paragraph 30.3 of standard licence condition (SLC) 30 (Availability of Resources).

3.31. The inputs must only be made for the next full regulatory year eg, if the regulatory year being reported ends 31 March 2016, then the forecast is for 2016-17.

3.32. The undrawn facilities that are available at the end of the current regulatory year must be input in row 34.

3.33. Any concerns regarding refinancing must be expressed in the commentary unless such issues have been separately notified to Ofgem.

F4 - Tax computation

3.34. The purpose of this worksheet is to calculate current year taxable profits and the total tax charge for the licensee. The current year tax balance should agree to the tax provision that has been recorded in the Regulatory Accounts.

3.35. This worksheet must be prepared on the same basis as the licensee's corporation tax return for each regulatory year ended 31 March and in accordance with extant tax legislation.

3.36.   The rate of corporation tax applicable to the current regulatory year is input by Ofgem.

3.37.   The first three sections adjust the profit before tax as per the regulatory Income Statement for disallowed expenses, allowable expenses not reflected in the income statement and capital allowances. Where more rows are required for individual adjustments greater than £500k an analysis can be included in the commentary.

3.38.   Capital charged to revenue is added back and is the amount of capex, which has been expensed in the regulatory Income Statement but for tax purposes is capitalised and allowances are given.

3.39.   The accruals based pensions charge that appears in the regulatory Income Statement must added back (row 20) whilst the pension contributions made in cash are deducted to arrive at taxable profit (row 39).

3.40.   The current year tax charge, deferred tax charge and effective tax rates are automatically populated from *F1 – Financial Statements*.

3.41.   The current and prior year tax payments/refunds and group relief payments/refunds should agree to the cash flow statement.

3.42.   Input the date (day, month year format) that the corporation tax return has been agreed with HMRC in row 93.

3.43.   Details of tax losses entered at the bottom of the table will inform the offsetting amounts against any tax funding provided for in the next price control review.

F5 - Allocations to Tax Pools

3.44.   This worksheet records the actual totex allocations to appropriate capital allowance pools and compares them against the allocation percentages set in the PCFM for the regulatory year.

3.45.   This will enable Ofgem to monitor licensees' actual allowances against capital allowances across the RIIO-ED1 price control period and may inform the next price control review.

3.46.   Enter the analysis of expenditure by category for tax purposes into the appropriate capital allowance pools.

3.47. The RAV element of Stand Alone Funding (SAF) should be recorded within 'Other Non-Load' related expenditure. The non-RAV element should be recorded under non-DUoS expenditure.

3.48. All expenditure on easements (in England and Wales) and servitudes (in Scotland) must be entered in row 19 as non-qualifying expenditure. The total expenditure must agree to what is reflected in the costs and volumes reporting pack.

3.49. Enter the analysis of indirect and business support costs capitalised under each taxable category in the two tables at the bottom of the worksheet. The totals should reconcile to the Costs and Volumes Reporting Pack.

3.50. The worksheet automatically calculates the variances between the actual capital allocations and the allocations set in the PCFM.

F6 - Tax clawback

3.51. This worksheet makes adjustments to the Net Debt and Net Interest figures calculated from the Regulatory Accounts in *F2 – Net Debt & Interest* to bring them in line with the regulatory definitions contained in the July 2009 open letter to network operators on the tax clawback, which sets out ex post adjustments following DPCR4.[3]

3.52. The adjusted Net Debt and Net Interest figures will be required for completion of the Tax Clawback workbook, which calculates the value of the tax benefit due to excess gearing as specified in RIIO-ED1.

3.53. The first section adjusts net debt (from *F2*) as per the Regulatory Balance Sheet to net debt as per the regulatory definition.

3.54. The second section adjusts the net interest expense (from *F2*) as per the Regulatory Income Statement to interest as per the definition in the tax clawback open letter.

F7 – Pensions

3.55. The purpose of this worksheet is to obtain detailed information on the annual position and performance of the licensee's defined benefit (DB) pension scheme(s) and the annual cost of the defined contribution (DC) pension scheme(s).

3.56. Information is summarised from the pension scheme accounts to provide a view on movements in scheme membership, assets and liabilities, deficit repair via contributions as well as a view on scheme investment and funding strategies.

---

[3] Clawback of tax benefit due to excess gearing (July 2009)

3.57. This information will help inform discussions with the licensee on any strategies to adjust pension scheme risk (de-risking/re-risking).

3.58. Where licensees have a primary and secondary DB scheme they must populate information in the respective columns.

3.59. Sections A to F capture information specifically relating to DB schemes where the licensee is a sponsoring employer and Section G captures information relating to DC schemes where the licensee is a sponsoring employer.

Section A - Pensionable payments information

3.60. Enter pensionable pay information before any reduction for the salary sacrifice element of pensionable pay (ie, the amount of salary sacrificed by employees in exchange for an increase in the element of employer pension contributions) and employee and employer contribution data applicable exclusively to the licensee rather than the scheme.

Section B - Pension deficit repair payments

3.61. Attributes total scheme deficit repair payments (cash) between the non-regulated and regulated business segments of the group. The actual payments made in respect of the regulated business are further split by business unit, ie where there is more than one licensee in a group.

3.62. This section calculates the pension deficit funding cost for the regulatory business through application of the Regulatory Fraction. The Regulatory Fraction applied must be consistent with Table 10.2 of the pension methodology in the DPCR5 Final Proposals Financial Methodologies.[4]

Section C - Pension hedging and contingent asset costs directly paid by licensee

3.63. Attributes total pension hedging and contingent asset costs directly paid by the licensee between the non-regulated and regulated business segments of the group. The actual payments made in respect of the regulated business are further split by business unit ie, where there is more than one licensee in a group.

Section D - Other costs paid directly by the licensee

3.64. This section records the PPF levies and scheme admin costs that have been paid directly (not as part of employer contributions) by the licensee during the year.

---

[4] Electricity Distribution Price Control Review (DPCR5) Final Proposals - Financial methodologies

Section E - Scheme Membership

3.65. Enter membership details for the scheme(s), by membership type and average age. This should be the licensee's best estimate of membership based on the latest available information from the scheme administration database or the latest available pension scheme accounts.

Section F - Scheme deficit information

3.66. Enter investment income as income received on scheme assets net of allowable investment management fees, which can be deducted from investment income.

3.67. Enter the change in the market value of investments, which is consistent with the approach used for the purposes of a triennial valuation.

3.68. Enter the amount of investment management expenses, which are charged separately or have not been implicitly allowed for in the "Change in market value of investments" item or as a deduction from the "Investment income" item.

3.69. Enter the percentage of scheme assets that are assumed to be return seeking ("A"), scheme assets assumed to be low risk ("B") and scheme assets that specifically match or hedge against movements in scheme liabilities ("C").

3.70. Enter the value of scheme assets by class. This should be the fair value as at 31 March of the regulatory year being reported.

3.71. Insert the value of scheme liabilities as at 31 March, which should be sourced from an updated internal valuation, co-terminus pension scheme accounts, returns to the Pension Protection Fund or best estimate. The basis for valuation should be stated in the Commentary.

Section G - Defined Contribution Pensions

3.72. Total cash contribution costs should be consistent with pension costs recorded in the Regulatory Accounts.

3.73. Percentage contribution rates for the employer and employees are derived from the licensee's payroll records.

F8 – Reconciliation to the Regulatory Accounts

3.74. The purpose of this worksheet is to reconcile total expenditure balances as per Regulatory Accounts to total expenditure reported in the costs and volumes reporting pack.

3.75. Total expenditure as per the Regulatory Accounts is automatically populated in the worksheet.

3.76. The licensee is required to detail all reconciling items between the Regulatory Accounts and costs and volumes reporting pack tables in the yellow input cells.

F9 – Links

3.77. The purpose of this worksheet is to collect values submitted in the Costs and Volumes Reporting Pack, which are required for completion of the Financial Issues Reporting Pack.

3.78. The values in the equivalent worksheet in the Costs and Volumes Reporting Pack must be copied and pasted into this worksheet.