RIIO-ED1 regulatory instructions and guidance: Annex C – Revenue and Financial Issues

Guidance

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Overview:

RIIO-ED1 is the price control for electricity distribution network operators (DNOs) from 1 April 2015 to 31 March 2023.

This document is part of the regulatory instructions and guidance (RIGs) for RIIO-ED1.

Contents

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 electricity distribution network operators (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. It provides DNOs with information on how to fill in the Revenue and Financial Issues Reporting Packs and Financial Issues Commentary that they are required to submit to us.

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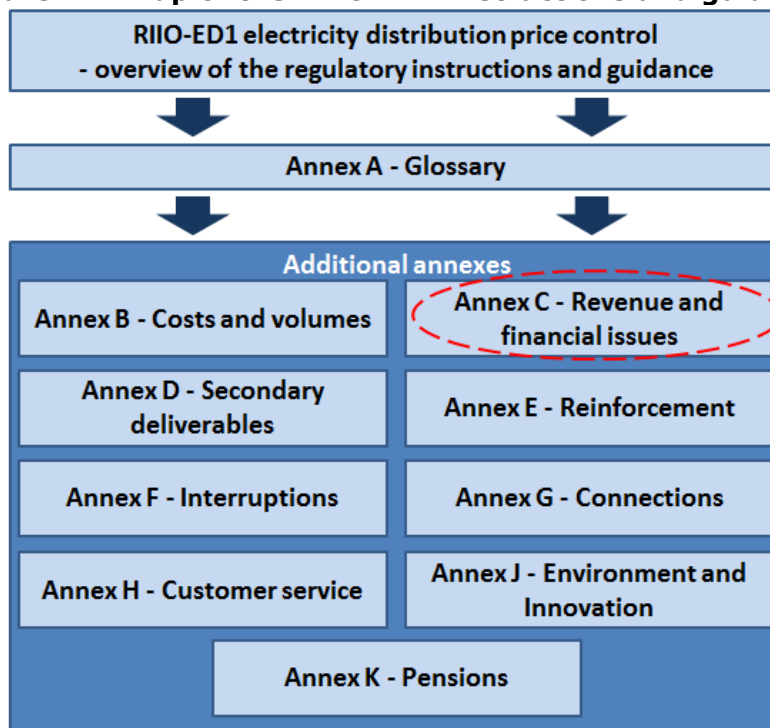
1.3.   This document should be read in conjunction with:

- the RIIO-ED1 electricity distribution price control – overview of the regulatory instructions and guidance document
- Annex A – Glossary for the regulatory instructions and guidance
- the associated Microsoft® Excel 2010 reporting packs named "Revenue Reporting Pack" and "Financial Issues Reporting Pack"
- the associated commentary named "Financial Issues Commentary".

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 Ofgem to effectively monitor DNOs' compliance with the licence conditions[1] related to the calculation of Allowed Distribution Network Revenue (AR). It also ensures the DNOs submit data in a consistent format.

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) (WPD and SSE owned DNOs only)
- DPCR4 residual distribution losses incentive value and Growth Term (DLGT) (ENWL, NPg UKPN and SP owned DNOs only)
- Correction factor for over or under recoveries of revenue (K).

2.4.   In addition, DNOs can derive revenue from the following distribution business activities:

- Legacy Metering Equipment provision
- Network Innovation Competition (NIC) payments received from SO
- Network Asset Secondary Deliverables incentive/penalty
- Directly Remunerated Services
- Out of Area Networks
- De Minimis Business
- Other Consented Activities
- Data Services associated with meter point administration.

2.5.   The Revenue Reporting Pack is populated with relevant values from each DNO's licence. DNOs are required to input values in worksheets *R5a – Links and R5 – Input Page*. Detailed instructions for these input values are given below.

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[1] These are the Charge Restriction Conditions of the electricity distribution licence.

2.6.   DNOs must raise any query or concern regarding revenue reporting requirements, whether specific or general, with Ofgem as early as possible.

General instructions

2.7.   DNOs 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 DNO 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 DNO must co-operate fully (and must ensure, so far as it can, that any Affiliate or Related Undertaking of the DNO 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.

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

Cover Sheet

2.9.   The DNO should select the relevant name from the drop down menu in cell D12 and the relevant reporting year in cell D14.

R2 – Changes Log

2.10. Any amendments (formulae or presentation) that are made by the DNO or by Ofgem to the reporting pack must be stated here, including the date those changes were made.

R3 – Data Change Log

2.11. The DNO 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

2.12. 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*.

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

R5a – Links

2.14. 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 and worksheets:

- Costs and Volumes Reporting Pack – I4 – Revenue and Financial Issues Inputs
- QoS Interruptions Reporting Pack – Revenue Link Table
- Guaranteed Standards of Performance Reporting Pack – Revenue Link Table
- Customer Service Reporting Pack – Revenue Link Table
- Connections Reporting Pack – Revenue Link Table.

2.15. DNOs must enter the relevant values in the cells. DNOs must ensure that the values submitted in this worksheet are equal to corresponding values submitted in the relevant reporting packs listed above. This ensures consistency of information between the Revenue Reporting Pack and other reporting packs.

2.16. DNOs may revise previously submitted values. In this scenario the DNO must also provide the information required in *R3 – Data Change Log*.

2.17.   The values in this worksheet automatically link to the *R5 – Input Page*.

R5 – Input Page

2.18. 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 DNO is required to make (in yellow cells).

2.19. These instructions focus on providing guidance to the DNO 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.

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

General information needed for calculations

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

Retail Prices Index

2.22. DNOs must enter the Retail Prices Index (RPI) for the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the RPI was for the year under report. The basis of the calculation will also be provided. The value will be calculated based on the arithmetic average of the general index of retail prices for all items published by the Office for National Statistics (ONS) each month (ONS code name is CHAW). The values must be entered to 3 decimal places.

2.23. RPIA is calculated with reference to the base year as the ratio of RPI for the regulatory year under report over RPI for 2012-13.

Retail Prices Index Forecast Growth Rate, by calendar year

2.24. DNOs must enter values for the Retail Prices Index Forecast Growth Rate by calendar year (GRPIFc) which is the forecast for RPI used in calculations. Ofgem will inform DNOs by the end of May each year what the Retail Prices Index Forecast Growth Rate for the relevant calendar years are. They will be equal to the values included in the last November's edition of the HM Treasury's publication "Forecasts for the UK Economy".[2] For example, for the Revenue Reporting Pack which is submitted in July 2016 the DNO must record GRPIFc in the row named 'from November 2015'.

Price index adjustment factor

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

Tax rate true-up

2.26. DNOs must enter the Corporation Tax rate (CT) set by HMRC that is applicable to the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the Corporation Tax rate was for the regulatory year under report.

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[2] Forecasts for the UK Economy

Present value factor

2.27. DNOs must enter the Vanilla Weighted Average Cost of Capital (WACC) applicable to the regulatory year under report. Ofgem will inform the DNOs by the end of May each year what the WACC was for the regulatory year under report. The value of WACC will have been calculated through the Annual Iteration Process of the Price Control Financial Model (PCFM).

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

Specific inputs by licence condition

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

CRC 2A. Calculation of Allowed Distribution Network Revenue

2.30. 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. Ofgem will direct the value of MOD applicable to the regulatory year under report in the preceding regulatory year. DNOs must input the value of MOD directed. MOD is zero for 2015-16.

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

2.32.   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).

2.33. The value of the interest rate adjustment (PR) must be entered where Ofgem 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. Ofgem 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.

2.34. DNOs must enter the Average Specified Rate for the regulatory year under report. Ofgem will inform DNOs by the end of May each year what the Average Specified Rate was for the regulatory year under report.

CRC 2B. Calculation of Allowed Pass-Through Items

2.35. Specified costs that are predominantly outside of a DNOs' 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 (RBA)
- 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).

2.36. 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.

2.37. SSEH must also enter the value of Shetland integrated plan costs (UNC) and the value of the assistance for high-cost distributors adjustment. Shetland integrated plan 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). Ofgem will determine the value of UNC for each regulatory year. The value of the assistance for high-cost distributors adjustment will be directed by the Secretary of State in accordance with section 184 of the Energy Act 2004.

CRC 2C. Broad Measure of Customer Service Adjustment

2.38. The Broad Measure of Customer Service Adjustment adjusts DNOs' 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)
- Percentage of Repeat Complaints (PRC).

2.39. 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)
- Industry target term (TCM).

2.40. DNOs are required to enter values for:

- *Broad measure of customer service revenue from DPCR5 (BMt-2)* – the revenue adjustment that reflects the DNO'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 Ofgem 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 Ofgem 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

2.41. DNOs 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 QoS Interruptions Reporting Pack and the Guaranteed Standards of Performance 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).

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

2.43. DNOs are required to enter values for:

- *Quality of service performance revenue adjustment in DPCR5* – the revenue adjustment that reflects the DNO'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. Input values are required for CIB_{t-2} to CIB_{t-4}. 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. Input values are required for $CMLB_{t-2}$ to $CMLB_{t-4}$.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 DNO 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

2.44. DNOs are incentivised to engage and meet the needs of major connections customers. A DNO will be penalised if it fails to meet minimum requirements outlined in the Incentive on Connections Engagement Guidance.

2.45. DNOs are required to enter the value of the incentive on connection engagement (ICEO) directed by Ofgem 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

2.46. The Time to Connect Incentive incentivises DNOs 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).

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

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

2.48. The targets have only been set for the first four years of the RIIO-ED1 price control period. DNOs are therefore required to enter the value of the targets, as determined by Ofgem, for the final four regulatory years of the RIIO-ED1 price control period.

CRC 2G. The Losses Discretionary Reward

2.49. This represents DNOs' awards against the criteria set out in the Losses Discretionary Reward Guidance Document (LDRGD). Ofgem 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.

2.50. DNOs must enter the value of the reward for the regulatory years in which Ofgem makes its determination.

CRC 2H. The Network Innovation Allowance

2.51. The Network Innovation Allowance (NIA) provides DNOs 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).

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

2.53. DNOs must enter the value of Unrecoverable Expenditure (NIAR). This is the amount of expenditure determined by Ofgem to be unrecoverable by a DNO in accordance with provisions set out in CRC 2H and the NIA Governance Document.

CRC 2J. Low Carbon Networks Fund

2.54. 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.

2.55. DNOs must enter the value of the:

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

2.56. These are determined by Ofgem in accordance with CRC 2J Part B and the LCN Fund Governance Document.

CRC 2K. Margins on licensee's Connection Activities

2.57. AUM is the total amount of any sums remaining unpaid pursuant to the requirements of a Clawback Direction issued by Ofgem, one year after a DNO has received that direction. A Clawback Direction requires a DNO 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.

2.58. Where a Clawback Direction has been issued DNOs must enter the value of AUM, which is either zero or positive.

CRC 2L. Revenue adjustments in respect of performance failures

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

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

CRC Chapter 5: Other revenue restriction related conditions

2.61. 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

2.62. No input is required from DNOs. 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).

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

R7 – Output Incentives

2.64. No input is required from DNOs. 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).

2.65. 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

2.66. No input is required from DNOs. This worksheet calculates the Allowed Pass-Through Items revenue adjustment (PT). It requires the following:

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

2.67. The values for the assistance for high-cost distributors adjustment and Shetland integrated plan costs are inputs to *R5 – Input Page*. The values for the other terms listed above are calculated in this worksheet using information auto populated from other worksheets in the reporting pack. Note, assistance for high-cost distributors, Shetland Variable Energy Costs and Shetland integrated plan costs are only applicable to SSEH.

R9 – Network Innovation Allowance

2.68. No input is required from DNOs. 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).

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

R10 – Low Carbon Networks Fund

2.70. No input is required from DNOs. 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).

2.71. The values for the terms listed above are inputs to *R5 – Input Page*.

R11 – Connections Performance Standards Payments

2.72. No input is required from DNOs. 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).

2.73. The values for the terms listed above are inputs to *R5 – Input Page* and *R4 – Licence Condition Values*, respectively.

R12 – DPCR4 Losses Incentive

2.74. No input is required from DNOs. This worksheet calculates the DPCR4 residual distribution losses incentive (PPL) (for all DNOs) and the DPCR4 residual distribution losses incentive value and growth term (for ENWL, NPg, UKPN and SP owned DNOs only).

2.75. The PPL term in respect of each regulatory year is set out in Ofgem's March 2014 determination letter.[3] 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.

2.76. For ENWL, NPg, UKPN and SP the value of the growth term adjustment is calculated based on inputs in *R5 – Input Page*.

R13 – Correction Factor

2.77. No input is required from DNOs. 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)
- Energy supplier temporary rebate (ESTR) (NPgN and NPgY only)
- Any directed value for the interest rate adjustment (PRDIR).

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

2.79. For regulatory years 2015-16 and 2016-17 the calculation of the correction factor varies by DNO. This worksheet auto calculates using the relevant method.

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

R14 – Allowed Distribution Network Revenue Summary

2.80. No input is required from DNOs. The worksheet brings together the values calculated in this reporting pack in order to calculate Allowed Distribution Network Revenue.

R15 – Reconciliation to Regulatory Accounts

2.81. This worksheet requires DNOs 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:

- 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
- Other Consented Activities
- Data Services revenue.

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

Licence Values

2.84. No input is required from DNOs. The worksheet contains fixed data taken from each DNO's licence. The data in this worksheet automatically populates *R4 – Licence Condition Values*.

3. Instructions for completing the Financial Issues Reporting Pack and Commentary

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) as well as recording detailed pension, debt and tax information. The reporting pack also reconciles 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 DNOs 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.

3.3.   DNOs must also complete and submit the Financial Issues Commentary alongside the reporting pack.

General instructions

3.4.   DNOs should submit numbers in £m correct to two decimal places. Error checks (orange cells) to reconcile detailed breakdowns to Regulatory Accounts totals have a tolerance of up to £0.01m 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.

3.5.   All values in this reporting pack are reported in nominal prices.

3.6.   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

3.7.   The following additional information is required:

- Corporation tax return (CT600) and supporting tax computations for the DNO'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 DNOs should indicate to Ofgem at the time of the RIGs submission if these accounts will only be available after 31 July following the regulatory reporting year.
- 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 DNO is a subsidiary.

Definitions needed for the Financial Issues Reporting Pack

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

- Accounting Standards
- Alternatives
- Contingent Pension Asset Costs
- CT600
- Currency Overlay
- Currency Swaps
- Customer Contribution
- Debt Cap Disallowance
- Deferred Revenue Expenditure
- Defined Benefit Pension Scheme (DB)
- Defined Contribution Pension Scheme (DC)
- Easements
- Environmentally Beneficial Technologies
- ESPS (Electricity Supply Pension Scheme)
- Fair Value
- Fixed
- Floating
- Free Cashflow
- FRS 101/102
- Funds from Operations
- Global Tactical Asset Allocation (GTAA)
- Interest Rate Swaps
- International Financial Reporting Standards (IFRS)
- Long life Assets Pool
- Net Debt
- Net Interest
- Pensionable Pay
- Pension Scheme Established Deficit
- Pension Deficit Repair Payments
- Pension Protection Fund (PPF)
- Pension Protection Fund Levy (PPF Levies)
- Pension Scheme Administration Costs
- Profit and Loss Statement of Comprehensive Income
- Regulatory Fraction
- Regulatory Tax Losses
- Related Party

- Salary Sacrifice Scheme
- Schedule 23 FA2003
- Stakeholder Pension & Personal Accounts
- Supranational
- Tax Clawback Calculation
- Triennial Valuation (Pensions)
- Undrawn Facilities.

FI Cover

3.9. The DNO should select the relevant name from the drop down menu in cell D12 and the relevant reporting year in cell D14.

3.10. Prior to submission of the reporting pack DNOs should ensure that the check status shows all worksheets as having zero errors.

FI Changes Log

3.11. Any amendments (formulae or presentation) that are made by DNOs or by Ofgem to the reporting pack must be stated here, including the date those changes were made.

FI Data Change Log

3.12. The DNO 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.

F1 – Financial Statements

3.13. The purpose of this worksheet is to obtain a standard form of each DNO's Income Statement, Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows, consistent with the audited 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.

3.14. This worksheet must agree to the entity's audited Regulatory Accounts for the relevant year. Further specific guidance:

- Except where stated below, each row of the worksheet should be completed for the individual DNO 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

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

3.16. All values must be entered as positive unless indicated as negative in the individual row titles.

3.17. The reconciliation of regulated distribution revenue to total revenue as per the regulatory accounts is included in *R15 – Reconciliation to Regulatory Accounts* of the Revenue Reporting Pack.

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

SOCI

3.19. 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 regulatory year 2015-16.

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

Statement of Financial Position

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

3.22. Enter all debit values within Non-Current and Current Assets as positive £m and all credit values within Creditors: amounts falling due within one year and Creditors: amounts falling due after more than one year as positive £m. Credit values within asset categories and debit values within creditor categories must be shown as negative £m.

3.23. 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.

3.24. 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 total expenditure figures in the Costs and Volumes Reporting Pack to audited amounts in the Regulatory Accounts.

3.25. For the asset disposal section, 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

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

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

3.28. Where non-loan intercompany balances, eg creditors, are not cleared on a regular basis in accordance with standard trading terms they should be classified as related party borrowings for the purpose of the net debt reconciliation.

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

3.29. The purpose of these worksheets is to summarise each DNO'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.

3.30. 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*.

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

3.32. 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

3.33. The purpose of this worksheet is to provide a framework for DNOs 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 DNOs' financial

stability and to feed into *F6 – Tax Clawback Data*, which adjusts the net debt and interest to the regulatory definitions.

3.34. 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.

3.35. Further specific guidance:

- The net debt summary is an auto-populated reconciliation between the sub-totals from the figures input in Sections A to L (*F2*) and total net debt as per the balance sheet from *F1*.
- There are additional manual input lines to reconcile any differences that may arise between the net debt analysis and net debt per the balance due to inclusion of derivatives and classification differences.
- 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 Ofgem.
- *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

3.36. The purpose of this worksheet is to give an indication of DNOs' 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).

3.37. 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.

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

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

F4 – Tax Computation

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

3.41. This worksheet must be prepared on the same basis as DNOs' corporation tax return and in accordance with extant tax legislation. The rate of corporation tax applicable to the current regulatory year must be input by DNOs. Ofgem will inform DNOs by the end of May each year what the Corporation Tax rate was for the regulatory year under report.

3.42. 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.

3.43. 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.

3.44. 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).

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

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

3.47. The dates (day, month year format) that the corporation tax returns are agreed with HMRC for the relevant statutory years that fall in the regulatory year under report should be provided once available as part of a future year's regulatory submission.

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

F5 – Allocations to Tax Pools

3.49. 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.

3.50. This will enable Ofgem to monitor DNOs' actual allowances against capital allowances set for the RIIO-ED1 price control period and may inform the next price control review.

3.51. Enter the analysis of actual expenditure by category for tax purposes into the appropriate capital allowance pools. The basis of apportionment to tax pools should represent the DNO's best estimate of tax pool allocations, eg prior year statutory tax pool reporting agreed with HMRC, and should be explained in the Financial Issues Commentary.

3.52. The worksheet automatically checks that the manual totex allocations entered reconcile to the PCFM actual totex values recorded in the Cost and Volumes Reporting Pack on a totals basis.

3.53. This worksheet automatically calculates the variances between the actual capital allocations and the allocations set in the PCFM.

F6 – Tax Clawback Data

3.54.   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.[4]

3.55.   The adjusted Net Debt and Net Interest figures will be required to calculate the value of the tax benefit due to excess gearing as part of the RIIO-ED1 Annual Iteration Process.[5]

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

3.57.   Where short term loans to related parties display the characteristics of long term loans, eg repeated renewal, they should be included within net debt as long term loans.

3.58.   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

3.59.   The purpose of this worksheet is to obtain a summary of key defined benefit pension scheme(s) payments from each DNO on an annual basis.

3.60.   Any references to pension deficits refer to the Pension Scheme Established Deficit as defined in Annex A - Glossary.

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

Section A - Pensionable payments information

3.62.   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 DNO rather than the scheme.

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[4] Clawback of tax benefit due to excess gearing (July 2009)
[5] Section 3 - Adjustments driven by gearing levels and corporate debt interest costs ('tax clawback') methodology (ED1 Price Control Financial Handbook)

Section B - Pension deficit repair payments

3.63. 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 DNO in a group.

3.64. 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 the RIIO-ED1 Pension Deficit Allocation Methodology (PDAM).[6]

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

3.65. Attributes total pension hedging and contingent asset costs directly paid by DNOs 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 DNO in a group.

Section D - Other costs paid directly by the licensee

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

F8 – Reconciliation to the Regulatory Accounts

3.67. 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.

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

3.69. DNOs are required to detail all reconciling items between the Regulatory Accounts and Costs and Volumes Reporting Pack in the yellow input cells.

F9 – Links

3.70. The purpose of this worksheet is to collect values submitted in the Costs and Volumes Reporting Pack (Annex B), which are required for completion of the

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[6]The PDAM is set out in the RIGs document for triennial pension reporting applicable to all energy network operators.

Financial Issues Reporting Pack. DNOs are also required to input a value for cash proceeds from sales of assets and scrap and customer contributions for the regulatory year 2014-15.

3.71. The relevant values for regulatory years 2015-16 onwards in worksheet *I4 – Revenue and Financial Issues Inputs* of the Costs and Volumes Reporting Pack must be copied and pasted into this worksheet.