

Grant McEachran
Head of RIIO Electricity Distribution
Ofgem
3rd Floor
Cornerstone
West Regent Street
Glasgow
G2 2BA

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 9332175
Fax 0117 9332428
Email asleightholm@westernpower.co.uk

Our ref

Your ref

Date

-

22nd March 2017

Dear Grant,

Proposal to make modifications to the Regulatory Instructions and Guidance

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to Ofgem's notice for modifications to the Regulatory Instructions and Guidance (RIGs).

Whilst the majority of changes being proposed are clarifications to existing reporting requirements, we have issues with a number of the proposed changes. We are also concerned about the process undertaken and the timing of reviews to determine the changes.

A number of changes have been introduced late in the review process and some have been introduced for the first time as part of the notice. Some of these late changes have issues with them and, had these changes been proposed earlier, DNOs would have had the opportunity to review them informally and resolve the issues ahead of formal consultation. It may be that the changes Ofgem has made are part of a wider plan, e.g. the introduction of RIIO accounts or changes to the PDAM process and requirements, but Ofgem has not shared its reasoning and, without this understanding, it is difficult to assess whether the changes are appropriate.

For example, the removal of the Financial Issues reporting pack was not signalled in advance to DNOs. This removes the requirement to report certain pensions information which may be due to updated PDAM requirements and guidance but this has not been communicated. It is important that Ofgem considers and communicates interactions between RRP packs and other reporting requirements and communicates the rationale for any changes as a result.

This year, Ofgem started the review process in January with a request for modifications. This is too late to compile the requirements, propose solutions and provide sufficient time to review the implications of any proposed changes, in time for a final publication of the RIGs by 31 March.

It would be more appropriate to start the RIGs review process in September, following on from DNO data submissions and Ofgem's supplementary question process. This allows timely identification of issues resulting from the compilation of submission data or subsequent analysis of submissions, whilst the issues are still 'fresh'.

The review process requested DNOs to provide a log of issues but many of these were not addressed until quite late in the review process. Working group meetings were arranged, but these were focussed on a small number of specific issues. Other unresolved issues were debated via email discussions with proposals (and counter proposals) circulated by the DNOs, but the conclusions of the discussions have not been determined until the notice has been published. Also a number of changes have been implemented without any discussion.

We would welcome more direction from Ofgem in assessing the issues raised by DNOs. Whilst email debates are adequate for presenting views and initial drafts, it would be more beneficial to discuss the solutions collectively at working groups with Ofgem chairing the decision making process.

By starting the process sooner, change proposals can be reviewed more thoroughly to determine if they are logical, fit in with existing reporting principles and avoid unintended consequences.

WPD is willing to support an earlier and more thorough review process.

The appendix to this letter summarises the changes where WPD has concerns. This is supplemented by comments against the RIGs changes log, submitted alongside this letter.

Should you wish to discuss any aspects of this response please contact amichalowski@westernpower.co.uk or dbroderick@westernpower.co.uk.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

APPENDIX

This appendix lists the areas where WPD has raised issues, concerns or comments within the log submitted alongside this response. For full details please refer to the log.

Overview

No.	Area	WPD comment
1	Overview guidance	Figure 1.1 needs to be updated so it refers to Annex C Revenue only (instead of Annex C Revenue and Financial Issues) Table 2.1 still refers to the requirement for a FI commentary in Annex C. WPD suggest that this requirement is moved to Annex B alongside the remaining FI tables. WPD's preference however would be for the FI commentary to be merged into the C&V commentary, now that there is no separate FI pack.

Annex A

No.	Area	WPD comment
5	Glossary term: Renewable Generation	The footnote number in the first sentence is not subscript and makes the year 20093 instead of 2009. The last paragraph makes reference to 'the working group' without specifying which working group this is. We suggest removing the reference to working group, so that the sentence states: "This will serve as a working list of technologies that will be reviewed periodically-on-a-regular-basis-by-the-working-group. "
8	Glossary term: Operational IT and telecoms	First bullet is incorrect. This has duplication of 'Marshalling Kiosks'. This should be 'Substation RTUs, Marshalling Kiosks and Receivers.' This is a new issue not previously identified.
18	Glossary: Asset Register - Other Movements	Assets adopted from ICPs have been incorrectly removed from the list of assets that are reported under Asset Register - Other Movements. DNOs do not incur costs associated with adoption of assets installed by ICPs, therefore including these assets under connections would skew any associated cost analysis. Assets adopted from ICPs should be reported as 'Asset Register - Other Movements'. This same comment applies to paragraph 6.11 in the Annex B guidance – which should also be consistently corrected.
20	Activity Volumes - Inspections	The additional details added into this definition are already contained within Annex B guidance. This now leads to duplication of instructions, which need to be kept in line in the future. WPD's preference is to retain the guidance within Annex B and leave the definition unchanged.
21	Smart Meter Information Technology Costs	WPD is happy with this much expanded definition in principle. However, we suggest 2 changes should be made:

		<p>(1) "Compliance - costs associated with external audits by an Independent Competent Organisation" - WPD report these in 'Smart Meter Communication Licensee Costs' as these are invoiced together with the other costs reported in this activity. Therefore we suggest these costs should remain in 'Smart Meter Communication Licensee Costs' rather than 'Smart Meter Information Technology Costs'</p> <p>(2) Care should be taken with the capitalisation of various phrases in this definition, as capitalisation suggests that these phrases are defined separately elsewhere in the RIGs which is not the case. We suggest that the following terms are 'decapitalised' to avoid confusion: 'Hardware and Infrastructure Costs'; 'Application Software Development Costs'; 'Customer Relationship Management systems'; 'Gateways'; and 'Client'. 'Independent Competent Organisation' is a specific term defined in the Smart Energy Code and so this should be made clear in the definition (eg "Independent Competent Organisation (as defined in the Smart Energy Code)").</p>
New	Glossary: Stores	This still shows red text for a previous change
New	Glossary: NABC - Bad Debt Expense (Net of Recoveries)	<p>An additional exclusion should be added to this definition: please add 'bad debt expense associated with supplier failure'.</p> <p>To avoid confusion, WPD also suggests that this activity is renamed to "NABC - Bad Debt Expense Other (Net Of Recoveries)"</p>

Annex B

No.	Area	WPD comment
8	SI1 - Performance Summary	Version 2.0 already had row 25 title as 'Customers Interrupted (excluding exceptional events)'. It is not clear what has changed.
12	SI1 - Performance Summary	The word 'average' could also be added to cells D32 and D33 in the Excel workbook.
15	Annex B: SI1 - Key Summary	It is not clear what definition has changed. Is this referring to the guidance for SI1 being updated?
16	Annex B: SI1 - Key Summary	NO CHANGE HAS BEEN MADE. The additional guidance for reporting a year in arrears is not included
18	CV tables	Cell B25 reads 'Asset Volumes and Costs'. This is in line with the WPD feedback in the informal consultation. The change described here is incorrect.
39	C23 - Other NABC	NO CHANGE HAS BEEN MADE. This change has not been made and no glossary term has been included.
43	I2 PCFM Inputs Nominal	These issues have not been addressed, despite being flagged as change made in the February 2017 issues log. Agree rows 90:96 should feed into relevant activities in rows 11,12, 20 and 25. Agree rows 118 - 122 do not feed anywhere; if these are removed then rows 203:207 can also be

		removed.
45	I2 PCFM Inputs Nominal	Corrected in column AJ but still incorrect for columns AK:AQ.
46	I2 PCFM Inputs Nominal	<p>As stated in the February 2017 WPD issues log, the change that has been made is incorrect as all the indirects are being allocated to one PCFM cost category. The indirect allocation to Atypicals Non Severe Weather in C1 - Cost Matrix 20xx cell BI78 should be included across table I2 rows 223-228. For example, the formula in cell AJ223 of table I2 should be: =SUM('C15 - Atypicals 2016!\$Y\$64:\$Y\$72)+('C1 - Cost Matrix 2016!BI78-'C1 - Cost Matrix 2016!BI73)*(SUM('C15 - Atypicals 2016!Y64:Y72)/(SUM('C15 - Atypicals 2016!\$AF\$64:\$AF\$72)-SUM('C15 - Atypicals 2016!\$AD\$64:\$AD\$72))). Similar formulae should be included in rows 224,225,226,227 and 229. Row 228 should be greyed out. The formula in cell AJ237 of table I2 should then be: 'C15 - Atypicals 2016!AD65+('C1 - Cost Matrix 2016!BI73). Rows 231, 232, 233, 234, 235 and 238 should also be greyed out.</p> <p>This is a complex change and could be extended so cells in table C15 are also greyed out to reflect that only pensions costs should be allocated to the "100% Revenue Pool" PCFM cost category.</p> <p>If this change is deferred until next year, there are some formula errors which do need to be addressed this year: row 237 in table I2 is linking to Controllable Opex (column AE in C15) and should be linking to 100% revenue pool (column AD).</p> <p>SIGNIFICANT: Row 229 is incorrectly bringing in ALL indirect allocations for CAIs and Business Support costs net of pensions (cells BD78 and BH78 in table C1).</p>
47	I2 PCFM Inputs Nominal	Labelling in D120 and D121 corrected but corresponding labelling in rows 205 and 206 is still incorrect.
48	I4 - Revenue, Fin Issue Inputs	No longer relevant, as this part of the table has been removed following the removal of the FI pack
49	M13 Uncertainty Mechanism Information	(Repeated from Feb 17 issues log) Agreed heading changed; however it still needs to be clarified whether this should be Net Costs Before or After Allocations
50	M13 Uncertainty Mechanism Information	(Repeated from Feb 17 issues log) Agreed now converted to 12/13 prices. However labelling and linkage of this row should be reviewed in 17/18
53	Paragraph 5.11 (V4 - Other Movements)	Assets adopted from ICPs have been incorrectly removed from the list of assets that are reported under V4. DNOs do not incur costs associated with adoption of assets installed by ICPs, therefore including these assets under connections would skew any associated cost analysis. Assets adopted from ICPs should be reported as 'Asset Register -

		Other Movements'
56	I1 - PCFM Inputs 12-13	Formula has been updated since v2.0 issued in Feb but this is unclear from this issues log. This adjustment should be made within row 26 on I2, rather than being included in row 17 of I1. Actual Totex expenditure in I1 should simply be a conversion of Actual Totex Expenditure in I2; if this adjustment remains only in I1, the Controllable Opex value and Actual Totex Expenditure in I2 would be incomplete. Further, the (slow track) licence definition of Income from Theft Recovery includes this adjustment and row 26 of I2 is called "Income from Theft Recovery".
58	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	See detailed comments below
59	Annex B: Cost and Volumes guidance	See comment in row 82 of the Issues log.
60	I1 - PCFM Inputs 12-13	Is this Ofgem's response to issue 56? Unclear. See WPD comments in relation to issue 56.
61	I2 - PCFM Inputs Nominal	SIGNIFICANT: F8 previously reconciled Total Expenditure reported in the Regulatory Accounts to Total Expenditure reported in the Costs and Volumes Reporting Pack, which was linked to cell CB80 of table C1; Total Net Costs after Non Price Control allocation. Totex (sum of rows 11:17) in table I2 - PCFM Inputs Nominal is not the same thing as Total Expenditure reported in the Cost and Volumes reporting pack. Cell C43 in table F8 should be re-linked to cell CB80 in the relevant C1 table. See also issue raised in row 81 of the Issues log.
63	I2 - PCFM Inputs Nominal	Incorrect table reference. Should be PCFM Inputs 12-13. Change agreed.
64	I4 - Revenue Pack Inputs	THIS CHANGE HAS NOT BEEN FULLY MADE This change has only been made to cell AJ21. The reversal of the signage should be made to all cells in the range AJ20-AQ24.
65	I4 - Revenue Pack Inputs	THIS CHANGE HAS NOT BEEN MADE This change has not been made: the DRS row in table I4 has not been amended and table C20 has not been updated to allow reporting of DRS1 revenue
66	I4 - Revenue Pack Inputs	Change not made (duplicate of issue 65)
NEW	Figure 1.1 missing from Annex B	Missing image
Omitted	CV20 - Visual Amenity	Given that visual amenity was already adequately defined in the glossary, the additional detail included is superfluous and, as currently drafted, confusing. If it is to remain, it needs updating as follows: The purpose of this worksheet is to record the gross costs and volumes associated with Visual Amenity Projects. relating to the undergrounding of overhead lines under the Visual Amenity Allowance funding mechanism. The Visual Amenity funding

		mechanism allows undergrounding of overhead lines for Visual Amenity inside Designated Areas. The mechanism also and allows for up to 10% of the total allowances to be used for undergrounding of overhead lines for Visual Amenity Outside Designated Areas where overhead lines span the boundary of Designated Areas . The worksheet records the costs of Visual Amenity Projects to feed into C1 and associated asset additions and disposals to feed into V1 – Total Asset Movements.
NEW	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	F2 name varies between worksheets and other references, e.g. FI Commentary document is still referring to 2 tables, F2 and F6; Annex B guidance document refers to "F2 – Net Debt, & Interest & Tax Clawback" but still then has title "F6 – Tax Clawback Data"; table itself in C&V pack is called "F2 - Net Debt & Tax Clawback". Name should be consistent and references to data in this table should all be under this single consistent heading.
NEW	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	Is there a reason why the financing information in F2 has to be split between <1 yr, >1yr <5 yrs, >5yrs? This is a new requirement but it is unclear what this information will be used for as it does not affect the tax clawback calculation.
NEW	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	Further guidance is required re: cost reporting convention. Currently, paragraph 1.12 in Annex B guidance states "All numbers must be entered as positive, except Customer Contributions and Cost Recoveries, which should be entered as a negative." However, items such as interest income, cash balances and loans to /other amounts due from other group companies should also be reported as positive amounts. Further, some of the adjustments to net debt to align it with the tax clawback definition should clarify whether these are adding or deducting, e.g. "Add back: Unamortised issue costs". "Amounts due to/ (from) other group companies" could also be a fixed heading in row 25.
NEW	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	F2 Row 68 should read: "Pensions: interest on scheme liabilities", and similarly in row 88 "Pensions: expected return on scheme assets".
NEW	F2 - Net Debt & Tax Clawback, F8 - Reconciliation to Reg Accs	SIGNIFICANT: F8 previously reconciled Total Expenditure reported in the Regulatory Accounts to Total Expenditure reported in the Costs and Volumes Reporting Pack, which was linked to cell CB80 of table C1; <i>Total Net Costs after Non Price Control allocation</i> . Table F8 in the latest pack now links to Totex (sum of rows 11:17) in table I2 - <i>PCFM Inputs Nominal</i> , which is not the same thing as Total Expenditure reported in the Cost and Volumes reporting pack. Cell C43 in table F8 should be linked to cell CB80 in the relevant C1 table.
NEW	Annex B: Cost and Volumes guidance	Paragraph after 3.3 – should have a paragraph reference and should refer to table F6, not F8.

NEW	Financial Issues commentary document	This is still a standalone document despite the tables being merged into the C&V pack. It would make more sense to also merge the FI commentary document into the C&V commentary document.
NEW	Annex B: Cost and Volumes guidance	Heading on P35: "Allocation of Utilisation in year to tax pools for PCFM" should read "Allocation of Utilisation in year to PCFM cost categories".
NEW	Annex B: Cost and Volumes guidance	Paragraph 4.91: "...(c) the tax category for the PCFM" should read "(c) the cost category for the PCFM". Similarly, in paragraph 4.85, "The Totex values are also required to be analysed into the tax category for the PCFM." should read "The Totex values are also required to be analysed into the cost category for the PCFM."
NEW	Annex B: Cost and Volumes	Table C15, heading in Y8, Y40, Y58 should read "Total allocation of Utilisation in year to cost categories for PCFM"
NEW	Financial Issues commentary document	We note that there is still a requirement to submit tax returns and the SAO signoff. Is this still needed? It is unclear what Ofgem will do with this information.
NEW	Annex C: Revenue guidance	First bullet of paragraph 2.14 should refer to : "Costs and Volumes Reporting Pack – I4 – Revenue Pack and Financial Issues Inputs"
NEW	Check Sheet	The table references on rows 213, 214 and 215 are incorrect and should be updated. The check in table M17 should be linked into row 215.
NEW	Annex B: Cost and Volumes commentary (section 2)	The guidance in the commentary should be clear as to whether the analysis and explanations required for performance against allowance should be for the reporting year only or for the ED1 period to date

Annex F

No.	Area	WPD comment
1	EE Impact Tab	<p>FORMATTING Cells C4, C6:C8, F5:F8, L62:L74, L82:L94, L102:L114 should all be round figures, currently formatted to 2 decimal places.</p> <p>MISSING FORMULA Cell L40 should show the formula =L28 Cell M40 should show the formula =M28 Cell N40 should show the formula =N28</p>

Annex J

No.	Area	WPD comment
1	Annex J : paragraph 4.42 and 4.43	The second bullet of 4.42 specifies one of the conditions for reporting renewable DG not connected under Engineering Recommendation G83 to be that the DG is 'subject to use of system charges in the reporting year'. This means that it will only be counted if this condition is met. Paragraph 4.43 requires the volumes to be split

		<p>between those where DG is 'subject to use of system charges in the reporting year' and those that are not. Because bullet 2 of 4.42 requires the DG to be 'subject to use of system charges in the reporting year' to be counted, then all the DG is 'subject to use of system charges in the reporting year'. The requirement to split the data in 4.43 is unnecessary, because there is nothing other than DG 'subject to use of system charges in the reporting year' being reported.</p> <p>In addition to the above, there are other minor amendments required for clarity. We propose that the paragraphs should be amended as follows:</p> <p>4.42. For the recording of renewable DG not connected under Engineering Recommendation G83, we would expect the DG must:</p> <ul style="list-style-type: none"> • the DG to be "still energised in the reporting year"; • the DG was either "be subject to use of system charges in the reporting year"; and • The Capacity is defined as follows: "the highest active electrical power that could be generated (or the relevant incremental change of this amount in cases of the expansion of existing DG plant) by a DG for the reporting year, according to the connection and use of system agreement(s) in force on 31 March of that relevant year or notification in cases of generation covered by Engineering Recommendation G83/1". <p>4.42.4.43. For the recording of renewable DG not connected under Engineering Recommendation G83, where the DNO is able to split the number of those that are subject to 'use of system charges in the reporting year' against those that are not, it should do so within its RIGs commentary to Annex J.</p>
2	Annex J: paragraph 2.10.	INCORRECT AMENDMENT MADE. Amendment 2 removes the term 'Undergrounding for Visual Amenity' and replaces it with 'Non-Undergrounding Visual Amenity Schemes'. Non-Undergrounding Visual Amenity Schemes is already included in the list as bullet 8, so this change leads to a duplication. The deleted 'Undergrounding for Visual Amenity' has a clear definition within Annex A (Glossary) which describes it as undergrounding activity in non-designated areas and therefore this needs to be retained because it is different to the Visual Amenity reported in table E1. The proposed changes should be removed – the existing text is correct
3	Annex J: paragraph 2.11.	INCORRECT AMENDMENT MADE. Amendment 3 attempts to provide a definition for Non-

		<p>Undergrounding Visual Amenity Schemes. The new wording confuses Non-Undergrounding activity with Undergrounding activity where it states that "This activity is defined as schemes undertaken to reduce the visual impact on the landscape of overhead lines." Non-undergrounding is not associated with overhead lines (a typical scheme could be making a substation look like a local redevelopment). There is no requirement for the new text because the definitions of Non-Undergrounding Visual Amenity Schemes and Undergrounding for Visual Amenity are adequate within Annex A. The changes should be removed.</p>
6	Annex J: paragraph 4.45	Also need to delete the word 'size' following the words that have been deleted