

Strategic Commentary: Strategic Performance Overview and Costs and Volumes Commentary

Version ~~1~~2.0

[Enter regulatory year]

[Enter DNO/DNO group name]

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Document purpose, contents and instructions

The overall purpose of the Strategic Commentary is to provide an explanation of DNO performance under the RIIIO-ED1 price control and what is driving that performance. To meet this, the Strategic Commentary should:

- provide an executive summary, focussing on key messages about performance (financial, output and cost), and presenting clear strategic insights;
- provide a summary of the key outputs, as detailed in Section 2, that the DNO has delivered during the year, setting them in context of the delivery of overall RIIIO-ED1 price control outputs; and
- present the differences between allowances and actual/forecast spend and provide a narrative that explains the drivers of these variances.

The audience for the Strategic Commentary is Ofgem. Information should be appropriately technical and targeted. The Strategic Summary in Section 4A should be aimed at senior management in Ofgem, with the remainder informing the RIIIO-ED1 team who carry out detailed reviews, analysis and benchmarking.

Commentary is required in response to specific questions included in this document. DNOs are welcome to include further comments or analysis to aid Ofgem's understanding of the data presented. This is particularly important where DNOs have identified issues with the reporting pack or how the data could impact upon any analysis or benchmarking of the data.

Where additional comments are included, but there is no pre-defined response template, DNOs should insert an appropriate heading and commentary in the body of this document or appendix.

One Strategic Commentary document is required per DNO group. All comments, data tables, charts etc. should be clearly marked to show whether they relate to all the DNOs in the group or specific DNOs only. All prices reported in this document should be in 2012/13 price base and should be to one decimal place.

Section A

1. Strategic Summary

Guide length: 3 pages

The Strategic Summary should include the following:

Section	Purpose						
a) Company performance: summarised company view of performance in RIIO-ED1 by the CEO.	To understand what the CEO sees as important indicators of performance, key highlights, and areas for improvement or focus in the remainder of the price control. This should come from the CEO to ensure accountability and ownership of company performance.						
b) Business plan delivery: high-level update on the delivery of the business plan focusing on key management and asset management initiatives, any other relevant updates, and any key risks and associated mitigating actions. <u>Where possible, the below table should be used to outline key risks and uncertainties being faced in achieving key RIIO-ED1 business plan objectives</u> <u>Risks and Uncertainties</u> <table><tr><th>Title</th><th>Risk Description</th><th>Risk Mitigation</th></tr><tr><td></td><td></td><td></td></tr></table>	Title	Risk Description	Risk Mitigation				To understand at a high level the key initiatives that will help deliver the business plan, any material changes in approach to deliver it since the business plan was conceived and key risks to delivery <u>as well as risk mitigations</u> .
Title	Risk Description	Risk Mitigation					
c) Company strategyStrategic Priorities: update on overall strategy detailing how the company’s strategy and <u>objectives-priorities</u> will deliver against performance targets.	To understand if and how performance to date and forecast performance has influenced the company strategy in -going forward. This should include what the DNO strategy <u>and priorities are</u> is delivering for all key stakeholders.						
d) Board update: brief Chairman’s update on Board activities and areas of focus.	To understand the Board’s key areas of focus and if and why the focus has changed in the current year. This should come from the Board to ensure accountability and ownership of company performance.						

2. Output and incentive performance

Guide length: 6-10 pages

a) Primary output summary

A high level summary of annual output performance for the primary outputs as set out in the table below, [RAG](#) should be provided for each DNO [and the DNO Group](#).

Output	DNO-1	RAG	DNO Group RAG	Comments
Safety	DNO-1			
	DNO-2			
	DNO-3			
Reliability and availability				
Environment				
Connections				
Customer service ¹				

1. This refers only to the customer satisfaction survey and complaints metric. The social obligations output is not included in the above, as the key metric, Stakeholder Engagement and Consumer Vulnerability (SECV) scores, will not be available at the time when the Strategic Commentary is submitted.

The overall RAG rating for each output should follow the guidance in Appendix 2, which is consistent with the RAG rating used in Ofgem's RIIO-ED1 Annual Reports. Where there is no RAG rating guidance set by Ofgem ([for e.g.](#) Safety and Environment), DNOs should use and provide an explanation for their own approach.

DNOs should present data in line with the table [belowabove](#), and the tables set out in sub-sections (b) to (g). The tables should be amended to include all DNOs within a group under each output/measure rather than one table per DNO.

DNOs are welcome to present the data or additional data using different graphics, but these should be in addition to the tables set out below. DNOs are also welcome to provide additional commentary in any part of Section A (ie chapters 2-5). ['Headline' commentary should be provided in the comments column and further explanations on variations from target should be provided as a narrative in sub-sections \(b\) to \(g\).](#)

For the avoidance of doubt [in the below sections](#), RAG rating applies to each DNO and not for each DNO group.

b) Safety

As a minimum, DNOs should report on safety performance using any safety measure they believe appropriate. [Any prohibition notices issued by the Health and Safety Executive \(HSE\) should be reported here.](#)

c) Reliability and availability

As a minimum, DNOs should report on reliability and availability performance using the measures set out in the table below.

The Customer Interruptions (CI) and Customer Minutes Lost (CML) targets are the Ofgem targets, and the associated RAG rating guidance for these is set out in Appendix 2. For all other areas, Ofgem do not set a target but DNOs should note their own [individual DNO](#) targets and RAG ratings should they have them, and detail their methods [under RAG Rating Methodology in Appendix 2](#).

DNOs can add any further measures of performance they consider appropriate.

Measure	DNO	Target	Actual	RAG	Comments
Customer Minutes Lost (CML) ¹	DNO-1				
	DNO-2				
	DNO-3				
Health Index (% of target)					
Non-connections GSoP (no of failures) ²					
Non-connections GSoP (total payment (£))					

1. This excludes exceptional events

2. This is the number of failures after exemptions

d) Environment

As a minimum, DNOs should report on environment performance using the measures set out in the table below. No targets have been set by Ofgem. Therefore, DNOs should note their own [individual DNO](#) targets and RAG ratings should they have them, and detail their methods [under RAG Rating Methodology in Appendix 2](#). DNOs can add any further measures of performance they consider appropriate. [We would welcome key explanations for contributors and/or drivers of performance in the comments column](#).

Measure	DNO	Target	Actual	RAG	Comments
Business carbon footprint, excl. losses (BCF) (tCO2e)	DNO-1				
	DNO-2				
	DNO-3				
SF ₆ emissions (Kkg)					
Oil leakage (fluid filled cable top up) (litres)					
Length of overhead line undergrounded in designated areas (km) ¹					

1. [Cumulative kilometres in RIIO ED1 to date](#)

e) Connections

As a minimum, DNOs should report on connections performance using the measures set out in the table below.

The Time to Quote (TTQ) and Time to Connect (TTC) targets are the Ofgem targets and the associated RAG rating guidance for these set out in Appendix 2. For all other areas, Ofgem do not set a target but DNOs should note their own [individual DNO](#) targets and RAG ratings should they have them, and detail their methods [under RAG Rating Methodology in Appendix 2](#). For Guaranteed Standards of Performance (GSoP) (% of cases), DNOs should also use the RAG method as set out in Appendix 2. DNOs can add any further measures of performance they consider appropriate.

Measure	DNO	Target	Actual	RAG	Comments
Time to Quote (LVSSA)	DNO-1				
	DNO-2				
	DNO-3				
Time to Quote (LVSSB)					
Time to Connect (LVSSA)					
Time to Connect (LVSSB)					
ICE penalty (£)					
GSoP failures (no. of cases)					
GSoP failures (% of cases) ¹					
GSoP connections payments (£)					

1. % of connection cases where the relevant Standard was applied but was not met.

f) Customer satisfaction

As a minimum, DNOs should report on customer satisfaction performance using the measures set out in the table below and the associated RAG ratings in Appendix 2. DNOs can add any further measures of performance they consider appropriate.

Measure	DNO	Target	Actual	RAG	Comments
Customer Satisfaction Survey Interruptions	DNO-1	8.2			
	DNO-2	8.2			
	DNO-3	8.2			
Customer Satisfaction Survey Connections		8.2			
Customer Satisfaction Survey General Enquiries		8.2			
Customer Satisfaction Survey Overall ¹		8.2			
Complaints metric		8.33			

1. Overall should be calculated using the following weightings: interruptions (30%), connections (50%) and general enquiries (20%).

g) Social obligations

The Stakeholder Engagement and Consumer Vulnerability (SECV) performance ~~will~~[may](#) not be available at the time of Strategic Commentary submission. However, while Ofgem do not set a target for the SECV initiative, DNOs should note their own target, should they have one. DNOs can add any further measures of performance they consider appropriate. [Information would be welcomed on DNOs' response to feedback received during the SECV assessment process and insight gathered from the DNOs' ongoing stakeholder engagement.](#)

Measure	Target
Stakeholder Engagement and Consumer Vulnerability Score	

3. Innovation performance

Guide length: 1-2 pages

DNOs should provide details of:

- The high-level vision for innovation and what innovation is aiming to achieve;
- The innovation stimulus funding awarded as set out in the table below;
- The impact of innovation to date in the RIIO-ED1 price control at a high level, [where possible linking innovation projects to primary outputs outlined in part 2 of section A in the below title 'Innovation Activity in Primary Output Areas'](#), e.g. reduced costs due to avoided reinforcement, achieving environmental targets; and
- Examples of innovative solutions adopted in the reporting year [and during RIIO-ED1 outlining and their impact. Examples should be provided in the below title 'Innovation Activity in Primary Output Areas'](#), e.g. this includes those incorporated into company policy and solutions implemented on the network.

	£m awarded to date in RIIO-ED1	£m spent to date in RIIO- ED1	Number of projects	Brief description of projects
Network Innovation Allowance (NIA)				
Network Innovation Competition (NIC)				
Low Carbon Network (LCN) Fund				

[Innovation Activity in Primary Output Areas](#)

[Please provide a brief explanation on how DNOs' innovation projects that are in progress/completed impacting in primary output areas outlined in part 2 of section A.](#)

4. Whole systems progress

Guide length: 1 page

DNOs should provide details of their approach to delivering whole system outcomes. When considering the scope of their response they should, in the first instance, consider actions taken where the primary driver, or significant benefits, were for the wider electricity system, or where they engaged with stakeholders, including other licensees, to enable benefits for their own network. This could further include activities undertaken in relation to other sectors such as gas, heat or transport.

As a minimum, this overview should provide a summary of:

- Key engagement, coordination and planning activities undertaken with stakeholders, including with other licensees, to identify and assess whole system impacts and opportunities, and develop corresponding solutions. This may include the provision of relevant data to stakeholders,
- Key actions undertaken with the aim of delivering whole system benefits that resulted in changes to network assets or network operation,
- the processes used to evaluate that key actions taken were the most efficient solutions available, and
- information on DNOs' approaches to contributing to whole system benefits, recognising that these may evolve as more information becomes available.

5. Financial performance

Guide length: 2-3 pages

DNOs should report on the key financial metrics including:

- Allowed revenue (in reporting year), as extracted from R14 of Revenue Reporting Pack; and
- 8-year Return on Regulatory Equity (RoRE) and component parts as set out in the table below. This should be the RoRE based on the model used in the [Ofgem Annual Reports RIIO Regulatory Financial Performance Reporting template \(RFPR\)](#). Both RoRE based on Notional and Actual Gearing should be set out below with a single column showing the RIIO-1 period RoRE % for each licensee, and a DNO group overall RoRE where applicable. DNOs are welcome to provide an alternative view of RoRE alongside this, explaining the different assumptions used from that in the Ofgem model; and Any additional information should be provided in the below title 'RoRE commentary'.
- Incentive revenue – this should be reported for incentives as set out below in the table. This relates to in-year performance. Information should be provided for each licensee in a DNO group and aggregated figures/percentages for each incentive.

			RoRE (%)	Commentary
Baseline cost of equity				
IQI additional income				
Totex Incentive Mechanism (TIM)				
Interruptions Incentive Scheme (IIS)				
Broad Measure of Customer Service (BMCS) ¹				
Incentive On Connections Engagement				
Time to Connect				
Losses Discretionary Reward				
Fines and Redress Payments				
Tax Allowance Retained Within Deadband				
Guaranteed Standards Payments				
RoRE Total				

RoRE based on Notional Gearing

	<u>DNO-1 RoRE (%)</u>	<u>DNO-2 RoRE (%)</u>	<u>Overall RoRE (%)</u>
Allowed Equity Return			
Totex Outperformance			
IQI Reward			
Broad Measure of Customer Satisfaction			
Interruptions-related quality of service			
Incentive on connections engagement			
Time to Connect Incentive			
Losses discretionary reward scheme			
Network Innovation Unrecoverable expenditure			
Network Innovation Competition Company Compulsory Contribution			
Penalties and Fines			
<u>RoRE – Operational Performance</u>			
Debt performance – at notional gearing			
Tax performance – at notional gearing			
<u>RoRE – Including financing and tax</u>			

RoRE based on Actual Gearing

	<u>DNO-1 RoRE (%)</u>	<u>DNO-2 RoRE (%)</u>	<u>Overall RoRE (%)</u>
<u>Allowed Equity Return</u>			
<u>Totex Outperformance</u>			
<u>IQI Reward</u>			
<u>Broad Measure of Customer Satisfaction</u>			
<u>Interruptions-related quality of service</u>			
<u>Incentive on connections engagement</u>			
<u>Time to Connect Incentive</u>			
<u>Losses discretionary reward scheme</u>			
<u>Network Innovation Unrecoverable expenditure</u>			
<u>Network Innovation Competition Company Compulsory Contribution</u>			
<u>Penalties and Fines</u>			
<u>RoRE – Operational Performance</u>			
<u>Debt performance – at notional gearing</u>			
<u>Tax performance – at notional gearing</u>			
<u>RoRE – Including financing and tax</u>			

RoRE Commentary

- ~~Incentive revenue. This should be reported for all incentives as set out in the table below. This relates to in-year performance.~~

Incentive	<u>DNO-1</u>	<u>% of maximum reward</u>	<u>Total</u>	<u>% of maximum reward</u>
	<u>£m</u>		<u>£m</u>	
Totex Incentive Mechanism (TIM)				NA
Interruptions Incentive Scheme (IIS)				
Broad Measure of Customer Service (BMCS) ¹				
Time to Connect Incentive (TTC)				
Incentive on Connections Engagement (ICE)				NA
Losses Discretionary Reward scheme (LDR)				NA
Total incentive payments				-

1. This excludes the SECV at this stage.

6. Cost and volume performance: actual and forecast costs vs. allowance¹

Guide length: 6-~~12~~¹⁰ pages

Expenditure in this section should be reported:

- in 2012/13 prices;
- including Real Price Effects (RPE); and
- after indirect allocation.

a) Totex performance summary

As a minimum, DNO groups should provide for each DNO a high level summary of totex performance to date and forecasts, split by the eight aggregate cost categories set out in the table below. This can be presented as per the table below for each DNO ~~and DNO group or graphically~~. A high level summary of the key variances should be provided, with the detail in section (b).

There should be a complete table/graphic produced for each DNO ~~and DNO group~~. DNOs are welcome to present the data or additional data using different graphics, but these should be in addition to the tables set out below.

<u>Total DNO Group</u>	Cumulative RIIO-ED1 to Date Actuals <i>minus</i> Allowance		Forecast Actuals <i>minus</i> Allowance for whole of RIIO-ED1	
	£m	%	£m	%
Load Related				
Non Load Capex (excluding Non-Operational Capex)				
High Value Projects (HVPs)				
Network Operating Costs (NOCs)				
Closely Associated Indirects (CAIs)				
Business Support Costs (BSCs)				
Non-Operational Capex				
Other costs within the Price Control (primarily Atypicals)				
Totex adjustments (eg disallowed party margin, scrap/disposal proceeds, DRS8)				
Totex				

¹ The forecast costs are current forecasts presented in M17 of the C&V pack and not business plan forecasts.

<u>DNO-1</u>	<u>Cumulative RIIO-ED1 to Date Actuals <i>minus</i> Allowance</u>		<u>Forecast Actuals <i>minus</i> Allowance for whole of RIIO-ED1</u>	
	<u>£m</u>	<u>%</u>	<u>£m</u>	<u>%</u>
<u>Load Related</u>				
<u>Non Load Capex (excluding Non-Operational Capex)</u>				
<u>High Value Projects (HVPs)</u>				
<u>Network Operating Costs (NOCs)</u>				
<u>Closely Associated Indirects (CAIs)</u>				
<u>Business Support Costs (BSCs)</u>				
<u>Non-Operational Capex</u>				
<u>Other costs within the Price Control (primarily Atypicals)</u>				
<u>Totex adjustments (eg disallowed party margin, scrap/disposal proceeds, DRS8)</u>				
<u>Totex</u>				

b) Aggregated cost category performance and drivers

For each of the eight listed aggregated cost categories, DNOs should:

1. Provide narrative if they have experienced/will experience upward and/or downward cost pressures to date as well as what is anticipated in the rest of RIIO-ED1. Purpose of this section is to gain insight and information to DNO's upward and/or downward cost pressures.
2. Explain the driver(s) of any under- or overspend to date (actual costs *minus* allowances) using the following categories:
 - (a) **Efficiency:** deliberate management actions that result in underspend. For example, innovation and efficient working practices that have resulted in reduced unit costs or volumes.
Example 1 - negotiation of external contracts for the delivery of High Value Projects, with strong commercial incentives to deliver efficiencies.
Example 2 - for a gas cable replacement scheme, installing a new cable into the pipe previously occupied by old cable, saving on excavation costs.
Example 3 - use of demand-side response contracts to defer a traditional reinforcement scheme to a date beyond RIIO-ED1.
Example 4 - redeployment of Closely Associated Indirect (CAI) staff to directly remunerated services.
 - (b) **Service enhancement:** deliberate management actions that result in overspend. For example, through increased volumes or unit costs.
Example 1 – increase in overhead clearance activity following an inspection programme which revealed greater levels of non-compliance than anticipated at the start of the price control.
 - (c) **External factors:** over/underspend caused by factors outside the management control of the DNO that are not expected to unwind during the price control period.
Example 1 - load demand is lower than forecast due to slower than expected economic growth. (gains)
Example 2 - unexpected and unprecedented external reaction to recent storms has led to greater investment than expected in storm resilience. (losses)
Example 3 - shortage of skilled tree-clearing operatives due to high demand increasing the costs at an industry level. (losses)

- (d) **Provision in price control settlement:** instances where the DNO requested a different level of costs to that in the settlement, where at least part of this difference of view has persisted in actual costs.

Example 1 - business support costs are in line with business plan submission, but allowances were higher than business plan submission. (underspend)

Example 2 - the allowance to deliver the volumes in the 132kV tower replacement programme was significantly lower than the submission and not achievable. The unit cost of a tower replacement is 20% higher than allowances. (overspend)

- (e) **Re-phasing or timing of work:** Over/underspend caused by changes in the phasing of costs that is expected to unwind during the period.

Example 1 - use of demand-side response contracts to defer a traditional reinforcement scheme to a later date but still within RIIO-ED1. Note: if this will also save costs in RIIO-ED1, the cost efficiency savings should be noted in category (a) when work is complete.

Example 2 - delay in rising and lateral mains expenditure due to longer than expected negotiations with landlords and council on scope of works.

Example 3 - active deferral of reinforcement spend while demand forecasts are updated and reviewed.

- (f) **Other:** where over/underspend cannot reasonably be reported under (a) to (e) above, they can be reported under 'other' provided the drivers are clearly explained in narrative.

Example 1 - storm resilience Engineering Technical Report (ETR) 132 activity delivered separate to general overhead line rebuild programme. In hindsight, costs would have been in line with allowances if delivered together. (inefficient)

DNOs should give their best estimate of the percentage amount of under- or overspend allocated to each of the above categories of driver.

~~DNOs should report the data assurance activity they undertook to verify these percentages.~~

Ofgem accepts that the percentage amounts applied to each category of driver is subjective and any interpretation should reflect this. The percentages amounts allocated applied should still be subject to data assurance under the Network Data Assurance Report (NetDAR), but we accept that the level of assurance for this part of the Strategic Commentary may be different to the overall assurance applied to the other parts.

The tables in the Costs & Volumes Reporting pack relating to each of the eight cost categories are listed in Appendix 3.

Example cost category table outlining over/underspend

DNOs are welcome to present the data or additional data using different graphics, but these should be in addition to the example table set out below.

	Load Related						
	Over/Under-spend Cost Categories						
<u>£m</u>	<u>Efficiency</u>	<u>Service Enhancement</u>	<u>External Factors</u>	<u>Provision in the Price Control Settlement</u>	<u>Re-phasing or timing of work</u>	<u>Other</u>	<u>Total</u>
<u>DNO-1</u>							
<u>DNO-2</u>							
<u>Total DNO Group</u>							

c) Forecasting methodology and assumptions

DNOs should:

- explain how forecasts were prepared and the key assumptions used;
- document any significant changes in forecasts from last year (+5% or – 5%) and the reasons for these if further detail than that provided in 5a and 5b is necessary; and
- explain any issues in comparing actual and forecast totex to allowed totex (with reference to table M17 in the Cost and Volumes Reporting pack).

Section B

7. Cost performance: volume variations

Guide length: 2-4 pages

For the worksheets listed below DNOs should detail significant variations to agreed RIIO-ED1 volumes that have not already been covered in Section 5 above.

Worksheet	Reprioritisation of volumes
CV1 - Primary Reinforcement	
CV2 - Secondary Reinforcement	
CV3 - Fault Level Reinforcement	
CV4 - New Transmission Capacity Charges (NTCC)	
CV5 - Diversions	
CV6 - Diversions Rail Electrification	
CV7 - Asset Replacement	
CV8 - Refurbishment no Secondary Deliverable Improvement (no SDI)	
CV9 - Refurbishment with a Secondary Deliverable Improvement (SDI)	
CV10 - Civil Works Condition Driven	
CV11 - Operational IT and Telecoms	
CV12 - Black Start	
CV13 - BT 21st Century (BT21CN)	
CV14 - Legal and Safety	
CV15 - QoS and North of Scotland Resilience	
CV16 - Flood Mitigation	
CV17 - Rising and Lateral Mains (RLMs) In particular report what calculation method has been used to determine km of mains length.	
CV18 - Overhead Clearances	
CV19 - Worst Served Customers (WSC)	
CV20 - Visual Amenity	
CV21 - Losses	
CV22 - Environmental Reporting	
CV23 - RIIO-ED1 High Value Projects (HVP) Summary	
CV23a - RIIO-ED1 High Value Project 1 (HVP1)	
CV23b - RIIO-ED1 High Value Project 2 (HVP2)	

CV23c - RIIO-ED1 High Value Project 3 (HVP3)	
CV23d - RIIO-ED1 High Value Project 4 (HVP4)	
CV23e - RIIO-ED1 High Value Project 5 (HVP5)	
CV24 - DPCR5 High Value Projects	
CV25 - Moorside, Shetland & Subsea	
CV25a - Moorside	
CV25b - Shetland (SSEH)	
CV25c - Subsea cables Proactive	
CV25d - Subsea cables Reactive	
CV26 - Faults	
CV27 - Severe Weather 1 in 20	
CV28 - Occurrences Not Incentivised (ONIs)	
CV29 - Tree Cutting	
CV30 - Inspections	
CV31 - Repairs and Maintenance	
CV32 - Dismantlement	
CV33 - Substation Electricity	
CV34 - Smart Meter Intervention DNO	
CV35 - Operational Training (CAI)	
CV39 - Directly Remunerated Services (DRS)	

8. Cost and volume performance: additional C&V table-by-table commentary

Guide length: 10 pages

a) Cost tables

C4 - Non-Operational IT and Telecoms ~~(Non-Op)~~

Change to Non-Operational IT and Telecoms strategy: detail any significant change in the ~~IT~~ Strategy since submission of business plan and note the effect on IT and Telecoms (Non-Op) expenditure. Please also note here any cost impacts due to a change any changes in the strategy as set out in on C13 – IT and Telecoms (Business Support) and CV11 – Operational IT and Telecoms.

C7 - STEPM (Non Op)

Additions to list in the definition: detail any small tools, plant or equipment that are not listed in the current definition but are in your costs.

C13 - IT and Telecoms (Business Support)

Change to IT and Telecoms (Business Support) strategy: ~~note the effect of any reported change (in the commentary for C4) on IT and Telecoms (Business Support) expenditure.~~ detail any significant change in the Strategy since submission and business plan and note the effect on IT and Telecoms Operational expenditure. Please note any interdependencies with C4 – Non-Operational IT and Telecoms and CV11 – Operational IT and Telecoms.

C15 - Atypicals Non Severe Weather

Description of atypical event: list and provide a brief description of all added atypical events in the worksheet.

C19 - Other Consented Activity

Description of Other Consented Activity: provide a brief description of all listed Other Consented Activities in the worksheet.

C24 - Related Party Margin

Other related parties: the worksheet allows DNOs to report data for up to fifteen related parties that transact with the DNO. Where the DNO transacts with more than fifteen related parties, the tables in the worksheet must be completed for those related parties that have the highest turnover from the DNO. For other related parties, report names and the details in the worksheet below.

Recharges from group affiliates and related undertakings: provide a detailed explanation of the margins included in recharges from group affiliates and related undertakings that do not directly trade with the DNO to each of the listed related parties.

b) Cost and volume tables

CV1 - Primary Reinforcement

Description of "Other" reinforcement activities: provide a brief description of all listed "Other" reinforcement activities in the worksheet.

CV2 - Secondary Reinforcement

Description of "Other" reinforcement activities: provide a brief description of all listed "Other" reinforcement activities in the worksheet.

CV3 - Fault Level Reinforcement

Description of "Other" fault level constraint schemes: provide a brief description of all listed "Other" fault level constraint schemes in the worksheet.

CV5 - Diversions

Description of projects: provide a brief description of [keyall](#) diversion projects.

CV6 - Diversions Rail Electrification

Description of projects: provide a brief description of all rail electrification projects (by rail line).

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CV8 - Refurbishment no SDI

Description of projects: provide a brief description of all key refurbishment projects/ programmes .

CV11 - Operational IT and Telecoms

Change to Operational IT and Telecoms strategy: note the effect of the any reported change (in the commentary for C4) on Operational IT and Telecoms expenditure-detail any significant change in the Strategy since submission and business plan and note the effect on IT and Telecoms Operational expenditure. Please note any interdependencies with C4 – Non-Operational IT and Telecoms and C13 – IT and Telecoms (Business Support).

CV14 - Legal and Safety

Description of "Other" legal and safety activity: provide a brief description of all listed "Other" legal and safety activities in the worksheet.

CV15 - QoS and North of Scotland Resilience

QoS costs: detail the additional equipment that reduces the impact of faults on customers and confirm that they could not be reported elsewhere in the pack.

CV26 - Faults

Emerging trends: note any emerging trends in the fault rate data for the asset categories and reasons for these trends.
Variation in fault rates: note any significant variations in the fault rates from forecast and reasons for these.

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CV27 - Severe Weather 1 in 20

Severe weather 1-in-20 events: list all the severe weather events, including the dates, included in the worksheet.

CV33 - Substation Electricity

Contract price and usage: note any material change to contract prices and/or usage.

CV36 - NIA

Description of projects: provide a brief description of all NIA projects [if not outlined in previous regulatory year](#).

CV37 - NIC

Description of projects: provide a brief description of all NIC projects [if not outlined in the previous regulatory year](#).

CV38 - IFI & LCN Fund

Description of projects: provide a brief description of all ITI and LCNF projects [if not outlined in the previous regulatory year](#).

c) Memo tables

M3 - ED1 WSC Schemes

Scheme overview: provide an overview of [each-key](#) WSC schemes.

M4 - Enablers for RIIO-ED2

Explanation of progress: explain what activities have been undertaken in the regulatory year under report to progress the roll out the enablers forecast in the RIIO-ED1 Business Plan.

Description of new enabler: where a new enabler has been added, a detailed description of the technology, why it has been used instead of those forecast, and the incremental additional benefit this enabler will provide compared with the forecast.

Net benefit: the net benefit of making these investments in total for all enablers in RIIO-ED1 by the end of RIIO-ED2 (regulatory year 2030-31) and over 45 years of the first deployment of any of these enablers. These should be calculated using Ofgem's RIIO-ED1 cost benefit analysis template. The net benefit calculations should be re-run each year, updating for actual activity and using the latest information to derive the forecast.

Key assumptions: describe the key assumptions in the cost benefit analysis including, but not limited to, the low carbon scenario anticipated over the remainder of RIIO-ED1, during RIIO-ED2 and up to 45 years, with reference to how this is different to forecast used in the RIIO-ED1 business plan. The low carbon scenario assumption used in the cost benefit analysis should be the same as is used to complete the reinforcement worksheets.

M5 - Severe Weather

Severe weather events: list all the severe weather events, including the dates, included in the worksheet.

M6 - Metal Theft

Reporting of Metal Theft in pack: detail where the memo costs in M6 are reported elsewhere in the pack (e.g. legal and safety, faults).

M7 - Protection Summary

Differences in unit costs: explain any differences in the unit costs (10% threshold) for like-for-like assets used in different activities. For example, batteries at 132kV substations in rows 13, 38 and 49.

M8 - Link Boxes

"Other" revised solutions: list and provide a description of "other" revised solutions.

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M9b - Permit & Lane Rentals (ex ante)

List of schemes: note the full list of permit and lane rental schemes provided with an ex ante allowance and date these were established (these should not change for all RIIO-ED1 period).

M9c - Permit & Lane Rentals (reopener)

List of schemes: note the full list of permit and lane rental schemes and the date these were established for which costs are reported.

M14 - Drivers

Growth factor: explain the growth factor applied.

d) Financial issues tables

[Reported in RFPR, not required for 2018-19 reporting]

~~F2—Net Debt and Tax Clawback~~

	Comments
Within the "Other amounts due to/ (from) group companies per Balance Sheet (memorandum)" there are any amounts that are more than one year old. If this is so, explain whether or not these amounts should be considered as part of net debt for the purpose of assessing whether the gearing ratio has been exceeded.	
If there are any derivative financial instruments held by a related party that are not included in the value reported in the table, quantify them and state which debt(s) is being hedged.	Interest rate swaps: Losses and gains: Gross currency swaps:
Identify any new debt or debt refinanced, or new derivative financial instruments in the regulatory year.	New debt in the year:
Detail the covenants relating to the top five loans by value.	

~~Commentary should specifically include an explanation of the reasons for each item reported as a borrowing not in accordance with the defined net debt item. The commentary should include:~~

- ~~• A description of the item~~
- ~~• A basic explanation of why the item has arisen~~
- ~~• An explanation of how the figure has been calculated. This should be sufficient for Ofgem to confirm the calculation during the visits if required.~~

~~Where you disagree with or have comments on tax/gearing clawback computation, explain those.~~

Comments

F8—Reconciliation to Regulatory Accounts

Commentary should specifically include an explanation of the reasons for each reconciling item. The commentary should include:

- A description of the reconciling item.
- A basic explanation of why the reconciling item has arisen.
- An explanation of how the figure has been calculated.
- Where International Financial Reporting Standards (IFRS) has been adopted, a statement of that fact listing the principle changes in the Accounts to opex and capex is required.
- Where costs are incurred by an affiliate and are not recharged to the licensee, state the name of the affiliate, the amount, the reasons why they are not recharged, justification for allowing such costs as efficient and why they should be allowed in computing RAV additions.
- Where any pension costs (ongoing employer contributions, deficit funding payments, PPF levies or pension scheme administration costs) are incurred by an affiliate and not recharged to the licensee, state the name of the affiliate, the amount, the reasons why they are not recharged, justification for allowing such costs as efficient and why they should be allowed as distribution costs of the licensee.

Comments

9. Cost and volume performance: allocation and estimation methodologies

Guide length: 4-6 pages

For the worksheets listed below, DNOs should detail estimates, allocations or apportionments used in reaching the numbers submitted in the worksheets. This needs to be completed for all worksheets where an allocation or estimation technique was used. Not all tables will have used allocation or estimation methods to reach the numbers. Where this is the case, simply note "NA".

Note: this only concerns the methodology and assumptions and is not about the systems in place to check their accuracy (that is for the NetDAR).

For the C1 Cost Summary sheet, detail estimates, allocations or apportionments used in reaching the numbers submitted (not covered by a specific table explanation), including:

- the allocation of shared indirect costs across DNOs in group;
- allocation of income relating to CAIs;
- allocation of income relating to business support costs (BSCs) and non-operational capex;
- indirect activity allocations to connections outside of price control; and
- indirect activity allocations to non-distribution (excluding connections).

Worksheet	Allocation/estimation methodologies
C1 - Cost Summary	
C2 - Connections Inside the Price Control	
C3 - Physical Security	
C4 - IT and Telecoms (Non-Op)	
C5 - Property (Non Op)	
C6 - Vehicles and Transport (Non Op)	
C7 - STEPM (Non Op)	
C8 - Remote Generation Opex	
C9 - Core Closely Associated Indirects (CAI)	
C10 - Wayleaves (CAI)	
C11 - Vehicles and Transport (CAI)	
C12 - Core Business Support	
C13 - IT and Telecoms (Business Support)	
C14 - Property Management (Business Support)	
C15 - Atypicals Non Severe Weather	
C16 - Smart Meter Outside the Price Control	
C17 - Legacy Meters	
C18 - De minimis	
C19 - Other Consented Activity	
C20 - Connections Outside the Price Control	
C21 - Out of Area Networks	
C22 - Pass-through	
C23 - Other Non Activity Based Costs (NABC)	
C24 - Related Party Margin	
CV1 - Primary Reinforcement	
CV2 - Secondary Reinforcement	
CV3 - Fault Level Reinforcement	
CV4 - New Transmission Capacity Charges (NTCC)	
CV5 - Diversions	

CV6 - Diversions Rail Electrification	
CV7 - Asset Replacement	
CV8 - Refurbishment no Secondary Deliverable Improvement (no SDI)	
CV9 - Refurbishment with a Secondary Deliverable Improvement (SDI)	
CV10 - Civil Works Condition Driven	
CV11 - Operational IT and Telecoms	
CV12 - Black Start	
CV13 - BT 21st Century (BT21CN)	
CV14 - Legal and Safety	
CV15 - QoS and North of Scotland Resilience	
CV16 - Flood Mitigation	
CV17 - Rising and Lateral Mains (RLMs) In particular report what calculation method has been used to determine km of mains length.	
CV18 - Overhead Clearances	
CV19 - Worst Served Customers (WSC)	
CV20 - Visual Amenity	
CV21 - Losses	
CV22 - Environmental Reporting	
CV23 - RIIO-ED1 High Value Projects (HVP) Summary	
CV23a - RIIO-ED1 High Value Project 1 (HVP1)	
CV23b - RIIO-ED1 High Value Project 2 (HVP2)	
CV23c - RIIO-ED1 High Value Project 3 (HVP3)	
CV23d - RIIO-ED1 High Value Project 4 (HVP4)	
CV23e - RIIO-ED1 High Value Project 5 (HVP5)	
CV24 - DPCR5 High Value Projects	
CV25 - Moorside	
CV26 - Faults	
CV27 - Severe Weather 1 in 20	
CV28 - Occurrences Not Incentivised (ONIs)	
CV29 - Tree Cutting	
CV30 - Inspections	
CV31 - Repairs and Maintenance	
CV32 - Dismantlement	
CV33 - Substation Electricity	
CV34 - Smart Meter Intervention DNO	
CV35 - Operational Training (CAI)	
CV36 - Network Innovation Allowance (NIA)	
CV37 - Network Innovation Competition (NIC)	
CV38 - Innovation Funding Incentive (IFI) & Low Carbon Network (LCN) Fund	
CV39 - Directly Remunerated Services (DRS)	
V1 - Total Asset Movements	
V2 - Cleansing	
V3 - Connections	
V4 - Other Asset Movements	

AP1 - Age Profile	
M1 - Flood Mitigation (site)	
M2 - DPCR5 Worst Served Customer (WSC) Schemes	
M3 - ED1 Worst Served Customer (WSC) Schemes	
M4 - Enablers for RIIO-ED2	
M5 - Severe Weather	
M6 - Metal Theft	
M9a - Traditional Street Works (ex ante)	
M9b - Permit & Lane Rentals (ex ante)	
M9c - Permit & Lane Rentals (reopener)	
M10 - Shetland (SSEH)	
M11 - Subsea Cables	
M12 - Moorside (ENWL)	
M14 - Drivers	

Appendix 1: List of C&V worksheets and commentary requirements

Worksheet	Commentary required	Performance against allowance and drivers	Allocation/estimation methodologies (at table level)	Table specific
Cover Sheet	No			
Changes Log	No			
Data change log	No			
Navigation	No			
Check Sheet	No			
I1 - PCFM Inputs 12-13	No			
I2 - PCFM Inputs Nominal	No			
I3 - Licence values	No			
I4 - Revenue Reporting Inputs	No			
I5 - Theft Recovery	No			
I6 - RPI	No			
S1 - Summary of C1s	No			
S2 - Summary of C1s (Real)	No			
S3 - C1 Movements (Real)	No			
S4 - C1 In Year Summary	No			
F2 – Net Debt and Tax Clawback	Yes	No	No	Yes
F8 – Reconciliation to Regulatory Accounts	Yes	No	No	Yes
C1 - Building blocks				
Load Related	Yes	Yes	No	No
Non Load Capex (excluding Non-Operational Capex)	Yes	Yes	No	No
Non-Operational Capex	Yes	Yes	No	No
High Value Projects	Yes	Yes	No	No
Network Operating Costs (NOCs)	Yes	Yes	No	No
Closely Associated Indirects (CAIs)	Yes	Yes	No	No
Business Support Costs (BSCs)	Yes	Yes	No	No
Other costs within the price control	Yes	Yes	No	No
C1 - Cost Matrix	Yes	No	Yes	No
C2 - Connections Inside the Price Control	Yes	No	Yes	No
C3 - Physical Security	Yes	No	Yes	No
C4 - IT and Telecoms (Non-Op)	Yes	No	Yes	Yes
C5 - Property (Non Op)	Yes	No	Yes	No
C6 - Vehicles and Transport (Non Op)	Yes	No	Yes	No
C7 - STEPM (Non Op)	Yes	No	Yes	Yes
C8 - Remote Generation Opex	Yes	No	Yes	No
C9 - Core Closely Associated Indirects (CAI)	Yes	No	Yes	No
C10 - Wayleaves (CAI)	Yes	No	Yes	No
C11 - Vehicles and Transport (CAI)	Yes	No	Yes	No
C12 - Core Business Support	Yes	No	Yes	No
C13 - IT and Telecoms (Business Support)	Yes	No	Yes	Yes
C14 - Property Management (Business Support)	Yes	No	Yes	No
C15 - Atypicals Non Severe Weather	Yes	No	Yes	Yes
C16 - Smart Meter Outside the Price Control	Yes	No	Yes	No
C17 - Legacy Meters	Yes	No	Yes	No
C18 - De minimis	Yes	No	Yes	No
C19 - Other Consented Activity	Yes	No	Yes	Yes
C20 - Connections Outside the Price Control	Yes	No	Yes	No
C21 - Out of Area Networks	Yes	No	Yes	No
C22 - Pass-through	Yes	No	Yes	No

C23 - Other Non Activity Based Costs (NABC)	Yes	No	Yes	No
C24 - Related Party Margin	Yes	No	Yes	Yes
CV1 - Primary Reinforcement	Yes	No	Yes	Yes
CV2 - Secondary Reinforcement	Yes	No	Yes	Yes
CV3 - Fault Level Reinforcement	Yes	No	Yes	Yes
CV4 - New Transmission Capacity Charges (NTCC)	Yes	No	Yes	No
CV5 - Diversions	Yes	No	Yes	Yes
CV6 - Diversions Rail Electrification	Yes	No	Yes	Yes
CV7 - Asset Replacement	Yes	No	Yes	No
CV8 - Refurbishment no Secondary Deliverable Improvement (no SDI)	Yes	No	Yes	Yes
CV9 - Refurbishment with a Secondary Deliverable Improvement (SDI)	Yes	No	Yes	No
CV10 - Civil Works Condition Driven	Yes	No	Yes	No
CV11 - Operational IT and Telecoms	Yes	No	Yes	Yes
CV12 - Black Start	Yes	No	Yes	Yes
CV13 - BT 21st Century (BT21CN)	Yes	No	Yes	Yes
CV14 - Legal and Safety	Yes	No	Yes	Yes
CV15 - QoS and North of Scotland Resilience	Yes	No	Yes	Yes
CV16 - Flood Mitigation	Yes	No	Yes	Yes
CV17 - Rising and Lateral Mains (RLMs)	Yes	No	Yes	No
CV18 - Overhead Clearances	Yes	No	Yes	Yes
CV19 - Worst Served Customers (WSC)	Yes	No	Yes	No
CV20 - Visual Amenity	Yes	No	Yes	No
CV21 - Losses	Yes	No	Yes	No
CV22 - Environmental Reporting	Yes	No	Yes	No
CV23 - RIIO-ED1 High Value Projects (HVP) Summary	Yes	No	Yes	No
CV23a - RIIO-ED1 High Value Project 1 (HVP1)	Yes	No	Yes	No
CV23b - RIIO-ED1 High Value Project 2 (HVP2)	Yes	No	Yes	No
CV23c - RIIO-ED1 High Value Project 3 (HVP3)	Yes	No	Yes	No
CV23d - RIIO-ED1 High Value Project 4 (HVP4)	Yes	No	Yes	No
CV23e - RIIO-ED1 High Value Project 5 (HVP5)	Yes	No	Yes	No
CV24 - DPCR5 High Value Projects	Yes	No	Yes	No
CV25 - Moorside	Yes	No	Yes	No
CV26 - Faults	Yes	No	Yes	Yes
CV27 - Severe Weather 1 in 20	Yes	No	Yes	Yes
CV28 - Occurrences Not Incentivised (ONIs)	Yes	No	Yes	No
CV29 - Tree Cutting	Yes	No	Yes	Yes
CV30 - Inspections	Yes	No	Yes	No
CV31 - Repairs and Maintenance	Yes	No	Yes	No
CV32 - Dismantlement	Yes	No	Yes	No
CV33 - Substation Electricity	Yes	No	Yes	Yes
CV34 - Smart Meter Intervention DNO	Yes	No	Yes	No
CV35 - Operational Training (CAI)	Yes	No	Yes	No
CV36 - Network Innovation Allowance (NIA)	Yes	No	Yes	Yes
CV37 - Network Innovation Competition (NIC)	Yes	No	Yes	Yes
CV38 - Innovation Funding Incentive (IFI) & Low Carbon Network (LCN) Fund	Yes	No	Yes	No
CV39 - Directly Remunerated Services (DRS)	Yes	No	Yes	Yes

V1 - Total Asset Movements	Yes	No	Yes	No
V2 - Cleansing	Yes	No	Yes	No
V3 - Connections	Yes	No	Yes	No
V4 - Other Asset Movements	Yes	No	Yes	No
V5 - Volume Matrix	No			
AP1 - Age Profile	Yes	No	Yes	No
M1 - Flood Mitigation (site)	Yes	No	Yes	No
M2 - DPCR5 Worst Served Customer (WSC) Schemes	Yes	No	Yes	No
M3 - ED1 Worst Served Customer (WSC) Schemes	Yes	No	Yes	Yes
M4 - Enablers for RIIO-ED2	Yes	No	Yes	Yes
M5 - Severe Weather	Yes	No	Yes	Yes
M6 - Metal Theft	Yes	No	Yes	Yes
M7 - Protection Summary	Yes	No	No	Yes
M8 - Link Boxes	Yes	No	No	Yes
M9a - Traditional Street Works (ex ante)	Yes	No	Yes	No
M9b - Permit & Lane Rentals (ex ante)	Yes	No	Yes	Yes
M9c - Permit & Lane Rentals (reopener)	Yes	No	Yes	Yes
M10 - Shetland (SSEH)	Yes	No	Yes	No
M11 - Subsea Cables	Yes	No	Yes	No
M12 - Moorside (ENWL)	Yes	No	Yes	No
M13 - Uncertainty Mechanism Information	No			
M14 - Drivers	Yes	No	Yes	Yes
M15 - Modern Equivalent Asset Value (MEAV)	No			
M16 - Forecasts	Yes	No	No	Yes
M17 - Forecasts TOTEX	Yes	No	No	Yes

Appendix 2: RAG rating guidance

RAG and ranking instructions				
Incentive	Green	Amber	Red	Overall RAG (for section 2a)
Average duration of interruptions (CMLs)	Actual performance is lower than or equal to the regulatory target	Actual performance is higher than target but lower than or equal to 105% of regulatory target	Actual performance is higher than 105% of regulatory target	For DNOs' overall Reliability and availability RAG status in annual report we applied a scoring system: Both green = Green overall Both red = Red overall Any other combination = Amber overall
Number of interruptions (CIs)	Actual performance is lower than or equal to the regulatory target	Actual performance is higher than target but lower than or equal to 105% of regulatory target	Actual performance is higher than 105% of regulatory target	
Complaints	Performance is lower than or equal to regulatory target of 8.33 (score <=8.33)	Performance is higher than regulatory target, but lower than or equal to 105% of regulatory target (8.33<score<=8.75)	Performance is higher than 105% of regulatory target (score>8.75)	Weight performance as follows: 50% connections; 30% interruptions; and 20% general enquiries. For DNOs' overall Customer satisfaction RAG status in annual report we applied a scoring system: Both green = Green overall Both red = Red overall Any other combination = Amber overall
Customer Satisfaction Survey	Performance is higher than or equal to regulatory target (>=8.2)	Performance is lower than regulatory target, but higher than or equal to 95% of regulated target (7.79<=score<8.2)	Performance is lower than 95% of regulated target (<7.79)	
SF6 (emissions as percentage of SF6 bank)	None - will build a picture of annual performance over the price control.			
BCF (excluding losses (as a % of network length and customer numbers)*)	None - will build a picture of annual performance over the price control.			
Fluid Filled cables (top up as a percentage of oil in service)	None - will build a picture of annual performance over the price control.			
Time to Quote and Time to Connect	Actual time is lower than or meeting regulatory target in all 4 of the categories	Actual time is higher than 105% of regulatory target for no more than 2 categories	Actual time is higher than 105% of regulatory target for 3 or 4 categories	For DNOs' overall Connections RAG status in annual report we applied a scoring system for 5 areas: All five green = Green overall Three or more red = Red overall Any other combination = Amber overall
Connection GSoPs	0% to <=2% of total connection standards missed	>2% and <=5% of total standards missed	>5% of total standards missed	

RAG Rating Methodology

Where Ofgem does not set a target, please provide a brief explanation on how targets were decided and the resulting DNO RAG rating awarded.

Reliability and availability

Environment

Connections

Appendix 3: List of C&V worksheets in eight main cost categories

Cost category	Associated tables
Load-related	C2 - Connections Inside the Price Control CV1 - Primary Reinforcement CV2 - Secondary Reinforcement CV3 - Fault Level Reinforcement CV4 - New Transmission Capacity Charges (NTCC)
Non Load Capex (excluding Non-Operational Capex)	CV5 - Diversions CV6 - Diversions Rail Electrification CV7 - Asset Replacement CV8 - Refurbishment no Secondary Deliverable Improvement (no SDI) CV9 - Refurbishment with a Secondary Deliverable Improvement (SDI) CV10 - Civil Works Condition Driven CV11 - Operational IT and Telecoms CV12 - Black Start CV13 - BT 21st Century (BT21CN) CV14 - Legal and Safety CV15 - North of Scotland Resilience CV16 - Flood Mitigation CV17 - Rising and Lateral Mains (RLMs) CV18 - Overhead Clearances CV19 - Worst Served Customers (WSC) CV20 - Visual Amenity CV21 - Losses CV22 - Environmental Reporting C3 - Physical Security
High Value Projects (HVPs)	CV23a-e - RIIIO-ED1 High Value Project 1-5 CV24 - DPCR5 High Value Projects
Network Operating Costs (NOCs)	CV26 - Faults CV27 - Severe Weather 1 in 20 CV28 - Occurrences Not Incentivised (ONIs) CV29 - Tree Cutting CV30 - Inspections CV31 - Repairs and Maintenance CV32 - Dismantlement CV33 - Substation Electricity CV34 - Smart Meter Intervention DNO C8 - Remote Location Generation
Closely Associated Indirects (CAIs)	C9 - Core Closely Associated Indirects (CAI) C10 - Wayleaves (CAI) C11 - Vehicles and Transport (CAI) CV35 - Operational Training (CAI)
Business Support Costs (BSCs)	C12 - Core Business Support C13 - IT and Telecoms (Business Support) C14 - Property Management (Business Support)
Non-Operational Capex	C4 - IT and Telecoms (Non-Op) C5 - Property (Non Op) C6 - Vehicles and Transport (Non Op) C7 - STEPM (Non Op)
Other costs within the Price Control	C15 - Atypicals Non Severe Weather. CV19 - Worst Served Customers (WSC) CV20 - Visual Amenity CV36 - Network Innovation Allowance (NIA) CV37 - Network Innovation Competition (NIC) CV38 - Innovation Funding Incentive (IFI) & Low Carbon Network (LCN) Fund