

Cap and Floor Regulatory Instructions and Guidance (RIGs)

Consultation

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Overview:

This document provides instructions and guidance to the interconnector owners (IOs) operating under the Cap and Floor regime to enable them to complete the reporting requirements associated with the Cap and Floor regime effective from the Authority's decision and operable for 25 years from the date of commissioning.

Context

This document is the Cap and Floor Regulatory Instructions Guidance (RIGs) established under Standard Condition 25: Cap and Floor Regulatory Instructions and Guidance of the Interconnector Owner’s (IOs) electricity interconnector licence. It covers provision of information by the IO to the Gas and Electricity Markets Authority (the “Authority”) in respect of the IO’s construction and operation phases, including construction costs, operating costs and financial information.

The information described in this document is required for a number of reasons:

- 1. Post construction review** – this information will be used by the Authority to inform the post construction review of costs ahead of operation.
- 2. Building knowledge** – acquiring experience and knowledge of the actual costs involved in constructing and operating an electricity interconnector licence will enable the Authority to evaluate subsequent projects more effectively.
- 3. Financial health** – monitoring the IO’s costs enables the Authority to secure that the IO is financially stable and able to finance its activities and obligations or to be prepared to respond in the event that the IO’s financial health deteriorates.
- 4. Licence compliance** – Standard Condition 25 of IO’s licence requires that this information be collected.

The Cap and Floor RIGs provide a framework that enables the Authority to collect data from the IO in a consistent format. The RIGs describe the information required to be provided to the Authority, guide the IO on how to provide this information and enable the IO to put the systems in place to collect the data to the detail required.

These RIGs may be modified in accordance with the change control procedures detailed in Standard Condition 25 of the electricity interconnector licence. For the avoidance of doubt, the IO must not change the structure of the Cap and Floor RIGs – this includes adding or removing rows or columns, even if they do not contain data. If the IO identifies a need for a change, it should raise the matter with Ofgem and the Authority may make the change to the master version of the reporting template as required.

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1. Introduction

Chapter Summary

This chapter sets out the purpose and structure of the RIGs which will apply to the electricity interconnector owners for the Cap and Floor regime. It also sets out guidance on the process for reporting under the RIGs and our audit requirements.

Background

1.1. The cap and floor (C+F) regime is the regulated route for new interconnector investment in GB.

1.2. Standards Condition 25 of the electricity interconnector licence establishes the Cap and Floor Regulatory Instructions and Guidance ("RIGs"). The RIGs specify the information to be reported in the templates provided in Appendix 1. The specified information is described in more detail in Section 2.

1.3. The RIGs provide a framework which enables Ofgem to collect data from the electricity IOs during the C+F period. We collect data to enable us to administer the Special Conditions of the licences (the conditions which relate to the C+F) and our C+F decision document. For example, the RIGs allow us to: monitor the expenditure during construction; monitor construction progress; and, inform the post construction cost assessment. The RIGs also provide a database of construction cost performance which we may draw on to set cost proposals at subsequent C+F windows.

1.4. The RIGs inform IOs about the information we plan to collect, guide them on how to provide this information and enable licensees to put systems in place to collect the data to the detail we require.

1.5. In accordance with its duties under the Electricity Act 1989 as amended, it may become necessary or beneficial to adapt the reporting template, in accordance with the change process set out in Part C of Standard Condition 25. The Authority welcomes the opportunity to engage with IOs and developers to further improve the reporting pack.

1.6. If any of the guidance contained in this document is not sufficiently clear then the IO should contact Ofgem for further guidance and/or to discuss potential changes to the reporting templates. In the first instance queries should be directed to:

Costs & Outputs and Technical,
Networks,
Ofgem,
9 Millbank,
London,
SW1P 3GE
Email: CostAndOutputs-Networks@ofgem.gov.uk

Legal framework

1.7. The reporting requirements relating to the C+F regime are contained in single licence condition:

- Standard Condition 25: Cap and Floor Regulatory Instructions and Guidance ('the RIGs Licence Condition').

1.8. The RIGs Licence Condition sets out the scope and governance arrangements for the RIGs.

1.9. For the avoidance of doubt this document is subordinate to the licence conditions. This document will not change, alter, or amend, any definition or obligation contained within the licence. In the event of any inconsistency between any licence condition(s) and this document, the licence condition(s) will take precedence.

1.10. This document should be read in conjunction with the RIGs Licence Condition. Where definitions are provided within the licence conditions, they are not duplicated in this document.

Components of the RIGs

Overall structure

1.11. The RIGs comprise two main elements:

- These instructions and guidance on how to report the data and provide a commentary (in MS Word)
- Associated table templates for reporting data (and in some cases calculations) (in MS Excel v.2007 or newer), including cost, revenue and availability data.

RIGs templates

1.12. The data templates have been designed to be consistent with the C+F financial model (CFFM) and ex ante allowances.

1.13. The key points to note in completing the RIGs templates are:

- The licensee must take all reasonable steps to ensure the quality of its RIGs data. The data must in all material respects be accurate, complete and fairly presented. Director-level sign-off and accountability is required for the submission of the templates.
- The licensee must notify Ofgem of the possibility of any significant revisions to improve data quality. This notification must be issued to Ofgem as soon as it becomes evident to the licensee that a reasonable likelihood exists of significant inaccuracies in any of its previously submitted data.
- Some of the workbooks in these RIGs have been designed to link to other workbooks. These links must be retained by the IOs in the version submitted to Ofgem. Failure to do so will be considered as a non-compliance with the RIGs.

- The RIGs tables are colour coded to reflect the action required. Yellow cells represent input fields. Light grey is used to denote cells containing a formula or non-input cells. White cells are used where cells do not need to be completed.
- All financial values should be input in the price of the year to which the RIGs relate, i.e. actuals are in the costs of the year, and forecasts should not include future inflation. Previous years' data should be reported in nominal terms (Ofgem will convert to real terms if necessary).
- Unless otherwise indicated in the guidance document or templates, actual financial values should be provided in (nominal) Euro million or (nominal) GBP million (as appropriate) to the maximum accuracy available, and displayed at one decimal place, with financial values reconcilable with statutory accounts. The actual financial data should be reported commensurate with the purpose for which such data is intended, taking into consideration the appropriate allocations that are necessary to complete the tables.
- Workload units (eg labour FTE) should be reported at the highest level of accuracy from the source systems and commensurate with the purpose for which such data is intended taking into consideration the appropriate allocations that are necessary to complete the tables. Unless stated in the licence or elsewhere in this document, workload should be entered in the unit of measurement set out in this guidance or in the template.
- Unless otherwise indicated in the guidance or templates, financial values should be input as positive values.
- Where a reportable value is zero or not applicable to the interconnector then a zero must be input rather than the cell being left blank.
- Where a table clearly states that data is to be filled in by an interconnector other than the licensee, the licensee should not populate the data.

Provision of forecast data

1.14. There will be a requirement to forecast costs and workload for any remaining years of the construction period, and at least part of the operating period. During the C+F regime, Ofgem will require 5-year forecasts into the operating period up to decommissioning (or beyond this date if delays arise). This requirement will be discussed with IOs.

1.15. The IO must take all reasonable measures to ensure that its forecasts are as robust as possible. Ofgem may seek to reconcile or verify these forecasts with an IO's internally-used forecasts.

Provision of Indirect Allocation Methodology

1.16. The IO must provide its methodology for allocating indirect costs as part of its reporting for their first reporting year, and subsequently request approval from Ofgem of any changes to this methodology. As part of this process:

- An explanation must be given on why the IO is seeking to change its allocations
- For the current reporting year, relevant costs (and the project total) using the current allocation methodology must be compared with the same costs (and the project total) following application of the proposed allocation methodology

- Likewise, a comparison must be made between the subsequent reporting year – and any other future year where a relevant change in costs is known by the IO – between costs derived with the current methodology and costs using the proposed methodology

Commentary

1.17. Alongside the submission of its templates, each IO must complete a commentary. The guidance for this is set out in Chapter 10. A commentary is required in order to:

- (1) Give Ofgem an understanding of annual business performance in terms of expenditure and workload
- (2) Provide a summary explanation of the forecast, including costs and workload
- (3) Provide a summary methodology behind the forecasts, including key evidence, assumptions, sensitivities and confidence
- (4) Provide an understanding of material variances against previous year's actuals, forecasts and the ex ante provisional C+F for costs and workload
- (5) Inform Ofgem of any organisational changes / performance improvements, including modification/enhancements to allocation methodology and/or data capture e.g. systems.

Reporting under the RIGs

Timescales for reporting

1.18. The completed RIGs will be submitted on an annual basis.

1.19. The reporting year for the provision of information under the RIGs is defined under Standard Condition 25 of the electricity interconnector licence. Different interconnectors may have different reporting years (eg, 1 April to 31 March or 1 January to 31 December). Each IO should report in accordance with the timescales set out in its licence.

1.20. The data templates for summary costs, revenue, availability and workload should include actuals for the most recent relevant year and forecasts for each of the remaining years of the construction period, through to operation.

1.21. Except where otherwise stated, the IOs must provide the information required under the RIGs as soon as reasonably practicable and in any event not later than the submission deadline established under Standard Condition 25 of its licence (three months from the end of the reporting year to which such information relates). This is the latest date that IOs can submit information unless Ofgem has previously consented to an extension in writing.

1.22. Where it is not possible for any reason to provide the data in the detail required this should be explained in a commentary submitted alongside the reporting pack. As far as is practical, IOs should notify Ofgem of any failure to report in advance of the submission to allow Ofgem to consider either an exemption or alternative reporting arrangements.

Form of submission

1.23. Instructions for the electronic submission of the workbooks will be circulated to the IO's regulation manager in advance of each submission deadline. However, if there is any doubt about the method of submission, the licensee must contact Ofgem.

1.24. The submission must be accompanied by a letter signed by a director on behalf of the IO confirming that the data is accurate and has been provided in accordance with the RIGs.

Resubmissions

1.25. IOs are required to seek the agreement of Ofgem or person nominated by Ofgem before resubmitting any information provided in accordance with these RIGs.

1.26. In any such instance the report concerned must be resubmitted in full. The resubmission must only be accompanied by a letter signed by a director where significant changes have been made and where Ofgem and/or the IO decide such a letter is required. The volume of supporting information the licensee will be required to submit to support any resubmission will be dependent on the nature of any required resubmission.

1.27. For each resubmission a detailed explanation must be provided in the changes log in the RIGs listing every cell that has been amended. The explanation must include sufficient commentary to explain the reasons for the resubmission.

1.28. In relation to the detailed return required as part of revenue reporting, this must only be resubmitted where a restatement is necessary in the opinion of the appropriate auditor (where appointed).

Review

1.29. Once the IOs have submitted the information to Ofgem, Ofgem or person(s) nominated by it ('a reviewer') will undertake a detailed review of the information. A review may include a visit to the IO for discussion of the information submitted. Such visits will be agreed with the IO in advance.

Appointing an examiner

1.30. In accordance with the RIGs Licence Condition, the IO must permit a person(s) nominated by Ofgem to examine:

- the systems, processes and procedures for measuring the specified information
- the specified information collected by the licensee
- the extent to which the systems, processes and procedures and the specified information complies with the RIGs.

Audit requirements in relation to cost and revenue reporting

8.5 The Standard Licence Conditions (25 (h)) provide the Cap and Floor RIGs to call for Specified Information to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose and the nature of the audit to be carried

out by that person. The current issue of the RIGs do not require an audit report to be submitted pursuant to this condition, although in future the Authority may modify the RIGs. Such changes may extend to introducing an audit requirement for some or all of the cost and revenue reporting where this is considered necessary by the Authority. If so Ofgem will issue an Agreed Upon Audit Procedures (AUP) for use by an appropriate auditor by the end of the year to be reported on.

Structure of this document

1.31. This document is divided into sections reflecting the different component parts of the RIGs workbooks. These are as follows:

- Chapter 2 provides general instructions and guidance for completing the data template worksheets
- Chapter 3 provides instructions for the completion of the common costs worksheet
- Chapter 4 provides instructions for the completion of the capital expenditure worksheets
- Chapter 5 provides instructions for the completion of the operating expenditure worksheets
- Chapter 6 provides instructions for the completion of the availability reporting worksheets
- Chapter 7 provides instructions for the completion of assessed revenue worksheet
- Chapter 8 provides instructions for the completion of the outturn non-controllable cost worksheet
- Chapter 9 provides instructions for supplementary information (eg universal information)
- Chapter 10 provides guidance and instructions on the information required in the commentary.

2. General instructions for completing data template worksheet

Chapter Summary

The purpose of this chapter is to provide general instructions for completing the data template worksheets by IOs. This will enable Ofgem to effectively monitor expenditure (and revenue) during development and construction (and operation) of the assets and provide information about the performances of IOs under the Cap and Floor regime.

Overview

2.1. The data templates are a series of tables in MS Excel workbooks. The purpose of the workbooks is to facilitate the submission of uniform and comparable information from IOs. This will enable Ofgem to monitor expenditure during development and construction of the assets and assess spend against the provisional Cap and Floor allowances. It provides an information basis for the Post Construction Review (PCR) to help determine final Cap and Floor levels.

2.2. The IO should submit accurate (and where instructed) audited figures of its costs and revenues for the relevant period. Further guidance is provided in this chapter.

2.3. Where possible, to avoid duplication and facilitate reconciliations and balance checks, the workbook has been designed for data to be entered once.

Accounting policies

2.4. All costs and revenues should be reported on a cash basis. Cash means exclusive of provisions and accruals and prepayments that are not incurred as part of the ordinary level of business. IOs should use the same accounting policies as in the preparation of the regulatory financial statements, in accordance with UK GAAP or IFRS unless otherwise stated.

2.5. In the event that the accounting policies applied to prepare the template differ from those used in the regulatory financial statements (for some or all years) the IO must include appropriate details including quantification of the difference.

2.6. In several cases the cost reporting templates are designed to capture the data across the construction phase and the PCR. In these cases all previous periods are to be completed with the outturn figures in nominal prices and all future periods are to be completed with nominal forecasts. To be clear, costs and revenues must not be price re-based to the reporting year, nor should forecasts include any inflation estimates.

Structure of the template

2.7. The template has been separated into the following sections:

- Common costs
- Capital costs
- Operating costs

- Revenue
- Outages and availability

Data entry

2.8. As the templates are a series of tables in MS Excel workbooks, links and formulae have been included to limit, where possible, the amount of manual data entry required. The workbooks have not been “locked”, but IOs must not make changes to any formulae or formats (including insertion or deletion of rows or columns, moving any cells, or altering any text, figures, or formulae in any cells not shaded yellow) unless specifically instructed to do so. If a change is necessary (to correct an error, for example), Ofgem will make the correction and notify the IOs.

Definitions

2.9. The workbooks include detailed definitions. IOs must ensure that the definitions are clearly understood and are complied with when entering any data into the template. Where there is doubt or uncertainty, please refer to Ofgem for clarification. This is to ensure consistency and comparability of data entry across IOs and to have a common basis for understanding the submissions.

Use of Estimates and Allocations

2.10. Apportionments should be avoided wherever possible. However where an IO (and any affiliate or related undertaking of the licensee) has to do this to complete the tables, the basis of apportionment must be provided. Changes in apportionments should also be highlighted.

Additional information

2.11. If IOs consider additional information beyond that requested is necessary to develop a complete understanding of the information presented in the tables then such information should be included in an appendix to the submission.

Template errors

2.12. Where errors in a worksheet are identified then Ofgem should be notified as soon as possible. Ofgem will make the necessary corrections, log them in the version log (in the reporting templates) and notify the IOs.

3. Instructions for completing the common costs worksheet

Chapter Summary

The purpose of this chapter is to inform the completion of the common costs worksheet by IOs. This will enable Ofgem to monitor expenditure on non-asset specific items and inform the post construction cost assessment review ahead of operation. It will also ensure operating expenditure can be monitored once the assets are in service.

Introduction

3.1. The purpose of this worksheet is to provide Ofgem with information on development expenditure (devex), capital expenditure (capex) and operating costs (opex) related to items which are not associated with a specific transmission asset. It will enable Ofgem to monitor these costs separately and inform the post construction cost assessment review ahead of operation.

Overview of worksheets

1. Common costs

<p>Purpose and use by Ofgem</p>	<p>To obtain information on development expenditure, capital expenditure and operating costs (e.g. insurance, licence fees, training etc.) that is common to the whole project and is not incurred in relation to a specific transmission asset. The information will be used to monitor expenditure during construction and will inform the post construction cost assessment review ahead of operation. The information will also be used to monitor operating expenditure over the C+F period.</p>
<p>Guidance on completing this worksheet</p>	<p>The worksheet should be completed by populating only the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Unless otherwise specified in this guidance, costs should be reported in in the original cost-incurred currency (eg £m if costs were incurred in Sterling), and on a nominal basis. All previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.</p> <p><u>Common Project</u></p> <ul style="list-style-type: none"> • For each of the cost elements in the table, the input columns are B to W. Costs should be reported on an actual basis and for the current reporting year • Column C and D: enter cost categories and sub-categories, as appropriate. When information cannot be provided, enter "n.a."

	<ul style="list-style-type: none"> • Column N and O: enter the amount and currency in which the cost has been incurred. Totals will be populated automatically • Column P and Q: unless a different approach is agreed with Ofgem, the IOs should enter the rate used to convert foreign currency into Euro at the time when the payment is entered into the IOs accounting system. This rate can be a weighted average rate if required to complete the tables, but a separate worksheet showing the currency conversions must be provided as an appendix table • Column R: costs should be entered in millions Euro. For costs incurred in any other currency (reported in column O), the Euro equivalent should be derived from the conversion performed by using the rate entered in column P. Totals will be populated automatically. Where the exchange rate in column P does not accurately reflect the conversions used, supplementary hedging information should also be provided through discussions with Ofgem • Column B, E to M and S to W: no guidance required. <p><u>Trading and Control</u></p> <ul style="list-style-type: none"> • For the purpose of completing this table, refer to the guidance provided in relation to Common Project (above). <p><u>Common Project cost profile</u></p> <ul style="list-style-type: none"> • For each of the cost elements in the table, the IO should provide the relevant information in columns B to V. • Columns G to T: the IOs should provide actual expenditure in the reporting year along with a high level forecast of expenditure expected to be incurred over the construction and C+F period. Totals will be populated automatically. • Columns B to F, U and V: no guidance required. <p><u>Trading and Control cost profile</u></p> <ul style="list-style-type: none"> • For the purpose of completing this table, refer to the guidance provided in relation to Common Project cost profile above.
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Specific definitions for this worksheet

None	
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4. Instructions for completing the capital expenditure worksheets

Chapter Summary

The purpose of this chapter is to inform the completion of the capital expenditure worksheets by IOs. This will enable Ofgem to effectively monitor capital expenditure during construction and inform the post construction cost assessment review ahead of operation.

Introduction

4.1. The purpose of the worksheets in this area is to report capex. The worksheets will enable Ofgem to monitor capital expenditure on specific transmission assets as well as monitoring progress at various stages of the development and construction process. The information in the worksheets will be used to inform the PCR ahead of operation.

4.2. IOs should submit accurate and (where instructed) audited figures of their costs for the relevant period. Further guidance is provided below.

4.3. All costs are to be entered on a cash controllable basis. This means exclusive of all provisions and all accruals and prepayments that are not incurred as part of the ordinary level of business.

Overview of worksheets

4.4. The worksheets covered by this chapter are:

Cost worksheets

- 2.1 Subsea cable costs
- 2.3 Underground cable costs
- 2.5 Substation and converter costs
- 2.7 Overhead line costs
- 2.9 AC GIL costs
- 2.11 Tunnel costs

Technical worksheets

- 2.2 Subsea cable technical
- 2.4 Underground cable technical
- 2.6 Substation and converter technical
- 2.8 Overhead line technical
- 2.10 AC GIL technical
- 2.12 Tunnel technical

1. Cost worksheets (tables 2.1, 2.3, 2.5, 2.7, 2.9 and 2.11)

<p>Purpose and use by Ofgem</p>	<p>To obtain expenditure information about the assets (e.g. subsea cable, underground cable, converter stations) delivered by the project. The IO is expected to provide a breakdown of actual expenditure incurred in the reporting year and forecast expenditure for future years. The information will be used to monitor costs during development and construction of the assets and will inform the post construction cost assessment review ahead of operation.</p>
<p>Guidance on completing the worksheets</p>	<p>The following instruction applies to the cost worksheets, i.e. tables 2.1, 2.3, 2.5, 2.7, 2.9 and 2.11. Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Unless otherwise specified in this guidance, costs should be reported in in the original cost-incurred currency (eg £m if costs were incurred in Sterling), and on a nominal basis. All previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.</p> <p><u>Cost breakdown</u></p> <ul style="list-style-type: none"> • For each of the cost elements in the table, please provide the relevant information in columns B to V. Costs should be reported on an actual basis and for the current reporting year. • Column O: please entry the amount and currency in which the cost has been incurred. • Columns P and Q: unless a different approach is agreed with Ofgem, the IOs should entry the rate used to convert any other currency into Euro at the time when the payment is entered into the IOs accounting system. • Column R: costs should be entered in Euro. For costs denominated in foreign currency, please provide the Euro equivalent derived from the conversion performed by using the rate entered in column P. The total will be populated automatically. Where the exchange rate in column P does not accurately reflect the conversions used, supplementary hedging information should also be provided through discussions with Ofgem. • When the project is delivering more than one asset of the same type/an asset has more than one section, we would ask the IOs to report on each asset/section separately. For such purpose, the IOs may extend the table if the project is delivering in excess of 4 assets/an asset has in excess of 4 sections. • Columns B to N and S to V: no guidance required. <p><u>Actual and forecast</u></p> <ul style="list-style-type: none"> • For each of the cost elements in the table, please

	<p>provide the relevant information in columns B to Y.</p> <ul style="list-style-type: none"> • Columns I to W: please provide actual expenditure in the reporting year and a forecast of expenditure that is expected to be incurred. Totals and variations from the baseline will be populated automatically, though commentary must be provided on any variations (column X). • When the project is delivering more than one asset of the same type/an asset has more than one section, we require the IOs to provide a separate cost profile for each asset/section. Each profile should be reported in a separate section of the table. For such purpose, the IOs may extend the table if delivering in excess of 4 assets/an asset has in excess of 4 sections. • Columns B to H, X and Y: no guidance required.
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Specific definitions for this worksheet

None	
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2. Technical worksheets (tables 2.2, 2.4, 2.6, 2.8, 2.10 and 2.12)

Purpose and use by Ofgem	The purpose of this table is to collect technical information about the assets delivered by the project. The information will be used to support Ofgem’s understanding of the asset characteristics and will inform the PCR ahead of operation.
Guidance on completing the worksheets	No guidance required.

Specific definitions for this worksheet

None	
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5. Instructions for completing the operating expenditure worksheets

The purpose of this chapter is to inform the IO on how to complete the operational, replacement and decommissioning expenditure worksheets.

Introduction

5.1. The purpose of the worksheets in this area is to report operational, replacement and decommissioning expenditure at various levels. The worksheets will be used by Ofgem to monitor and fully understand operational, replacement and decommissioning forecast and actual expenditure on specific transmission assets as well as monitoring progress, trends and performance at various stages of the development, construction and operational processes. The information in the worksheets will be used to inform the post construction cost assessment review ahead of operation and assist in monitoring actual operational, replacement and decommissioning expenditure as it is incurred. Certain large and significant areas of cost are broken down into greater detail so that Ofgem can understand the movements more easily.

5.2. IOs should submit accurate and (where instructed) audited figures of their costs for the relevant period. Further guidance is provided below.

5.3. All costs are to be entered on a cash controllable basis. This means exclusive of all provisions and all accruals and prepayments that are not incurred as part of the ordinary level of business.

Overview of worksheets

5.4. The worksheets covered by this chapter are:

- 3.1 Operating costs
- 3.2 Replacement costs
- 3.3 Decommissioning costs
- 3.4 Additional information

1. Cost worksheets (tables 3.1, 3.2 and 3.3)

Purpose and use by Ofgem	The purpose of this table is to provide net cash controllable cost analysis of business costs, insurance, operational and maintenance, closely associated indirect, related party margins, un-planned maintenance, replacement and decommissioning expenditure that have already or are forecast to be incurred by the IOs. The IO is expected to provide a breakdown of actual expenditure incurred in the reporting year and forecast expenditure for future years. The information will be used to monitor costs during development and construction of the assets and will inform the PCR ahead of operation.
Guidance on	The following instruction applies to the cost worksheets 3.1,

<p>completing the worksheets</p>	<p>3.2 and 3.3 in this chapter. Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Unless otherwise specified in this Guidance, costs should be reported in nominal Euro million.</p> <p><u>Actual and forecast cost breakdown</u></p> <ul style="list-style-type: none"> • The cost reporting templates are designed to capture the data across the duration of the Licence. For each of the cost elements in the table, please provide the relevant information in columns D to AB. In these cases all previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts. • If for any reason the actual or forecast cost is negative (an inflow), please input it as a negative number. <p>The template includes 'spare' rows to cater for some variation in the way projects are accounted for (eg under different accounting treatments).</p>
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Specific definitions for this worksheet

None	
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2. Additional information (table 3.4)

<p>Purpose and use by Ofgem</p>	<p>The purpose of this table is to collect technical information about the O&M stage of the project. The information will be used to support Ofgem's understanding of the asset O&M characteristics and the IO's asset management policy. It will inform the PCR ahead of operation as well as help track any changes to the O&M arrangements and the policy during the operational or decommissioning stages.</p>
<p>Guidance on completing the worksheets</p>	<p>The first table (row 8 to 24) column D is to be completed with a name or value according to the information requested in column B. Column E is for providing any additional commentary on the value provided, describing the work being/to be done and the rationale/justification for the name/value provided.</p> <p>Second and third tables (row 26 to 41) are to be completed with a name/link to a supplementary document detailing the information requested in column C. Column D is to be populated with an executive summary type narrative of the documents for which the name or link has been provided.</p>

Specific definitions for this worksheet

None	
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6. Instructions for completing the availability reporting worksheets

Chapter Summary

The purpose of this chapter is to inform the IO on how to complete the availability worksheets.

Introduction

6.1. The purpose of the worksheets in this area is to establish the level of incentive, if any, that should be applied to the cap and floor, for comparison with assessed revenue.

6.2. Licensees should submit accurate figures.

Overview of worksheets

6.3. The worksheets included within this chapter are:

6.4.1 Availability

6.4.2 Monthly outages – populated automatically from the Availability sheet

6.4.3 Annual outages – populated automatically from the Monthly sheet

1. Availability worksheet (4.1)

Purpose and use by Ofgem	The purpose of this table is to collate details of all outages during the reporting period. The information will be used to establish the level of incentive, if any, that should be applied to the cap and floor, for comparison with assessed revenue.
Guidance on completing the worksheet	Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.

Specific definitions for this worksheet – the following terms have the meanings given in the special conditions of the relevant electricity interconnector licence

"Availability Reduction Value"	
"Exceptional Event"	
"Interconnector Availability"	
"Interconnector Outage"	
"Rated Capacity"	

6.5 All outages need to be reported, even if an exclusion on grounds of force majeure is being sought. If there have been no outages then this need not be stated and the input cells left blank.

- 2. Monthly outages (4.2)** – all cells are grey and will be populated automatically
- 3. Annual outages (4.3)** – all cells are grey and will be populated automatically

7. Instructions for completing the assessed revenue worksheet

Chapter Summary

The purpose of this chapter is to inform the IO on how to complete the assessed revenue worksheet.

Introduction

7.1. The purpose of this worksheet is to establish the level of income that should be compared to the cap and floor.

7.2. Licensees should submit accurate figures of their costs and revenues for the relevant period. Further guidance is provided below.

7.3. All costs are to be entered on an accruals basis (see Glossary).

Materiality

7.4. Where Interconnectors are completing tables with revenues <€0.1m it is not expected that all cells will be completed. Interconnectors should either show the total in the cell labelled “Other” or enter the total in the cell that represents most of the revenues or costs.

1. Assed Revenue worksheet (5)

Purpose and use by Ofgem	<p>The purpose of this table is to establish the level of income that should be compared to the cap and floor.</p> <p>The IO is expected to provide a breakdown of actual revenue earned and expenditure incurred in the reporting year and forecast expenditure for future years.</p>
Guidance on completing the worksheet	<p>Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Revenue components should be reported in nominal Euro million. Where components of income or expenditure are denominated in Sterling, such components shall be converted to Euro using the GBP_t / EUR_t exchange rate. This shall be calculated in accordance with the special conditions of the relevant electricity interconnector licence.</p> <p>Values of assessed revenue reported in €m in these RIGs will be converted to £m for input into the Cap and Floor financial model in accordance with the terms of special condition 5 of</p>

	<p>the relevant electricity interconnector licence.</p> <p><u>Actual and forecast revenue and cost breakdown</u></p> <p>The reporting templates are designed to capture the data across the duration of the cap and floor regime. For each of the elements in the table, please provide the relevant information in columns F to AD. In these cases all previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.</p> <p>If for any reason the actual or forecast value is negative (an inflow), please input it as a negative number.</p>
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Specific definitions for this worksheet – the following terms have the meanings given in the special conditions of the relevant electricity interconnector licence:

ADR _t
ASRB _t
ASRGB _t
CAR _t
CMR _t
CPB _t
CPGB _t
EAC _t
FC _t
GBP _t / EUR _t
IAT _t
MRC _t
RI _t
TCC _t

8. Instructions for completing the outturn non-controllable costs worksheet

Chapter Summary

The purpose of this chapter is to inform the IO on how to complete the outturn non-controllable costs worksheet.

Introduction

- 8.1 This worksheet is used to establish differences between forecast (baseline) and actual (outturn) non-controllable operating costs that must be transferred between the Interconnector and the system operator.
- 8.2 Licensees should submit accurate figures of their costs and revenues for the relevant period.
- 8.3 All costs are to be entered on an accruals basis (see Glossary).

Materiality

- 8.4 Where Interconnectors are completing tables with costs <€0.1m it is not expected that all cells will be completed. Interconnectors should either show the total in the cell labelled "Other" or enter the total in the cell that represents most of the revenues or costs.

1. Outturn non-controllable operating costs worksheet (6)

Purpose and use by Ofgem	The purpose of this table is to allow the calculation of differences between forecast and actual non-controllable operational costs that must be transferred between the IO and the GB system operator.
Guidance on completing the worksheet	<p>Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Costs should be reported in nominal Euro million. Where components of income or expenditure are denominated in Sterling, such components shall be converted to Euro using the GBPt / EURt exchange rate. This shall be calculated in accordance with the special conditions of the relevant electricity interconnector licence.</p> <p>The whole table should be completed with actual data for all elapsed periods (ie prior to The Outturn Non-Controllable Operational Costs for Relevant Year <i>t</i> are equal to costs</p>

	<p>incurred by the licensee for the Non-Controllable Operational Cost Items. These should be supplemented with any other analysis or information which the licensee considers sufficient to enable the Authority to fully assess the reasons for any difference(s) between the actual costs (ONCOC_t term) and the forecast costs (BNCOC_t term) as defined in the IO Licence, Special Condition 7.</p> <p>If for any reason the actual or forecast value is negative, please input it as a negative number.</p>
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Specific definitions for this worksheet – the following terms have the meanings given in the special conditions of the relevant electricity interconnector licence

CEL _t
PRT _t
LF _t
RB _t
ONCOC _t

9. Instructions for completing the reconciliation to statutory accounts worksheet

Chapter Summary

The purpose of this chapter is to inform the IO on how to complete the reconciliation worksheet.

Introduction

- 8.6 The purpose of this worksheet is to demonstrate that the figures reported in the regulatory return are consistent with those reported in the statutory accounts of the licensee.
- 8.7 Licensees should submit accurate figures of their costs and revenues for the relevant period.
- 8.8 All costs are to be entered on an accruals basis (see Glossary).

Materiality

- 8.9 Where Interconnectors are completing tables with costs <€0.1m it is not expected that all cells will be completed. Interconnectors should either show the total in the cell labelled "Other" or enter the total in the cell that represents most of the revenues or costs.

1. Reconciliation to statutory accounts worksheet (7)

Purpose and use by Ofgem	The IO licensee is required to demonstrate that the figures reported in the cost and revenue return are consistent with those reported in the statutory accounts.
Guidance on completing the worksheet	<p>Worksheets should be completed by populating the yellow cells in the tables. Entries are not required for grey cells.</p> <p>Costs should be reported in nominal Euro million.</p> <p>The whole table should be completed with actual data for all elapsed periods (ie prior to The Outturn Non-Controllable Operational Costs for Relevant Year t are equal to costs incurred by the licensee for the Non-Controllable Operational Cost Items. These should be supplemented with any other analysis or information which the licensee considers sufficient to enable the Authority to fully assess the reasons for any difference(s) between the regulatory returns and the statutory accounts.</p> <p>Total items included in regulatory return but not in statutory accounts: This column is to be used for recording the total value of reconciling items of this sort. Note that the</p>

	<p>reconciling items should not be the result of timing differences since the structure of the reconciliation captures the appropriate costs and revenues for the period. Any reconciling totals must be supported by a breakdown of individual items where each item is properly explained. The Authority may ask for documentary support of reconciling items. This data should be reported in nominal terms.</p> <p>Total items included in statutory accounts but not in regulatory return: This column is to be used for recording the total value of reconciling items of this sort. Note that the reconciling items should not be the result of timing differences since the structure of the reconciliation captures the appropriate costs and revenues for the period. Any reconciling totals must be supported by a breakdown of individual items where each item is properly explained. Ofgem may ask for documentary support of reconciling items. This data should be reported in nominal terms.</p>
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Specific definitions for this worksheet

None	
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9 Instructions for completing the supplementary information

Chapter Summary

The purpose of this chapter is to provide instructions to the IO on completing supplementary information in the reporting tables.

Introduction

- 9.5 The commentary should explain the current progress and performance of construction and/or operation (where relevant), changes in the current work profile or performance from that forecast in the previous year, and changes to the work profile or performance for forecasted years.

Sign off

- 9.6 The input cells on the sign off sheet are to be completed by a director of the IO once all other data has been collected in the return and immediately prior to submission of the return to the Authority.
- 9.7 Each individual tab of the return should be reviewed and the name of the preparer and the name of the reviewer recorded in the specified input cells on the left of each tab. The reviewer should also tick the box to indicate that the tab has been reviewed and all issues properly resolved.
- 9.8 For the avoidance of doubt the review of each tab need not necessarily be performed by a director of the IO though the declaration on the "Sign off" tab must be and the director making the declaration must have taken adequate steps to satisfy themselves that they are able to make the declaration shown on that tab.

Universal data

- 9.9 Company number: this should be the official company registration issued by Companies House upon incorporation of the IO.
- 9.10 Company name: this should be the official name of the company as reported on filings submitted to Companies House. This cell will be completed by Ofgem. In the event that the name of the company has changed during the year then the name reported in this tab should be the name as at the end of the reporting year.
- 9.11 Company short name: this should be a standard abbreviation of the name of the IO which should be used whenever the name of the IO is to be abbreviated. This cell will be completed by Ofgem.
- 9.12 Interconnector: this should be the name of the IO. This cell will be completed by Ofgem.

- 9.13 Reporting year: this is the most recent year for which data are being submitted. Different IOs may have different reporting years (eg, 1 January to 31 December or 1 April to 31 March). The convention used in naming reporting years is to use the name of the year in which the regulatory reporting year ends. For example, the regulatory reporting year which started on 1st April 2009 and ended on 31st March 2010 is referred to as "2010".
- 9.14 Version (Number): where cost reporting templates have been resubmitted for any reason each submission should be separately identified by its version number. The version numbers should be successive positive integers such that the first submission is always version 1 and any subsequent resubmissions will be labelled version 2, 3, 4 etc.
- 9.15 The Authority's agreement is required before any resubmission of information set out in a report produced in accordance with these RIGs can be made. In any such instance, the report concerned must be resubmitted in full. The resubmission must only be accompanied by a letter signed by a director where significant changes have been made and where Ofgem or the IO decide such a letter is required.
- 9.16 In addition, for each resubmission a separate explanation must be provided listing each and every cell that has been amended and sufficient commentary to explain the reasons for the changes.
- 9.17 Submitted date: Paragraph 11 of Standard Condition 25 requires that the completed cost reporting templates are submitted by no later than 3 months following the end of that Relevant Year to which the information relates. This cell should specify the date on which the return was sent to the Authority.
- 9.18 GAAP used in current year: this cell shows the generally accepted accounting principles employed in the preparation of the accounts for the current reporting year. This cell links to tab 8 (Statement of comprehensive income) of the spreadsheet.

Reporting arrangements

Documents to submit

- 9.19 As part of the cost reporting the IO should submit the following:
- The completed cost reporting templates in electronic format (to be submitted via email)
 - An accurate commentary alongside the tables to explain the costs, revenues and availability performance for the relevant period, in electronic format (to be submitted via email)
 - Where relevant and required by Ofgem, a report from the IO's auditor setting out the findings of their agreed upon procedures (this will constitute the "auditor's report" referred to in the licence)

- 9.20 Where relevant and required by Ofgem, a hard copy of the cost and revenue return initialled by IO's auditors on each page to indicate that the version submitted is the same as the version on which the auditors prepared their work.

Forex cost treatment

- 9.21 Ofgem considers that the efficient and economic approach to major foreign exchange contracts is to hedge the payment. Two courses of action, or a combination of these two, can constitute hedging; these are either the forward purchase of currency to be used to pay invoices or the purchase of an option to purchase currency at a pre-agreed rate. Forward purchased currency will always be used in payment, options will be used wherever doing so is advantageous. As a consequence Ofgem will accept costs incurred for forward purchased exchange, or in the case of option purchase, the costs of the purchase of the hedge itself, and then allow for the cheaper of the hedged rate or the spot rate to be used in assessing the sterling costs. Ofgem will not allow foreign exchange losses as a cost category.
- 9.22 We therefore encourage hedging of contracts, and hedging of underlying contracts at SPV level where possible.
- 9.23 We ask developers to outline their approach to hedging at the outset of a project and expect them to provide supporting documentation as necessary. Where developers are unable or unwilling to provide the relevant calculations then we may determine the rate based on the forward rates applicable at the time that the contract was signed.
- 9.24 In the case of forward purchase of currency:-
In the operator's (the SPV's) books, we should find the value of the construction costs at the hedged exchange rate. The prevailing exchange rates will not be considered as the position has been hedged.
- 9.25 In the case of forward purchase of an option on currency:-
In the operator's (the SPV's) books, we should find the cost of purchasing the option on currency and the value of the construction costs at the rate exercised – either the option rate or the spot rate, whichever was more favourable. If the spot rate is used the prevailing exchange rates will be accounted for. If the option is exercised the prevailing rate at the time the invoice is accounted for and it and the variable leg of the foreign exchange hedge net each other off exactly.
- 9.26 A developer may choose not to hedge costs which are small, and/or unpredictable in timing. Ofgem will review such decisions on a case by case basis and, if it agrees that it was not appropriate to hedge these costs and finds that the developer acted in an efficient and economic manner otherwise, it will accept the costs at the sterling cost paid assessed at the spot rate prevailing at the time of payment.
- 9.27 At no point will Ofgem accept 'exchange losses' as an efficient and economic cost.

Documents to submit

- 9.21 Blank copies of these worksheets containing the cost, revenue and incentive reporting requirements under Amended Standard Condition E12 – D1 are provided along with this document. Given that all the reporting is contained in the same Excel workbook we expect licensees will find it easier to submit the whole workbook to cover off all the reporting due 3 months after the end of the year being reported on.

10 Guidance and instructions for completing the commentary

Chapter Summary

The purpose of this chapter is to inform the IO on the commentary that accompanies the reporting tables.

Introduction

10.5 Licensees should submit an accurate commentary alongside the tables to explain the costs, revenues and availability performance for the relevant period. Further guidance is provided below.

Overview

10.6 The commentary is to explain the current progress and performance of construction and/or operation (where relevant), changes in the current work profile or performance from that forecast in the previous year, and changes to the work profile or performance for forecasted years.

10.7 This commentary should explain the materiality of cost variations, reasons for these, efficiencies used (eg in the case of lower spend) or mitigations applied (eg in the case of higher spend).

10.8 The commentary should, where relevant in that reporting year, provide separate focus on costs, revenues and availability performance.

10.9 At an aggregate level as well as for each table (eg subsea cable), the commentary should:

- Provide an overview of performance, including material cost overruns or underspends relative to the previous year's forecast (or FID, in the first reporting year). Where this does not qualify as risk or contingency (eg if it is an efficiency that has lowered costs), this should be made explicit
- Outline and explain any contract variations, covering reasons for the variation and evidence demonstrating the need for the variation (eg unknown obstacle), its value, and how forecasted costs are affected. In addition, any cost reductions should similarly be explained. These variations should be treated individually rather than on a net basis, although the overall net position should be clearly given
- Where there are any variations to the base provisional allowances (and C+F levels), this must also be made clear if not already through the above requirement
- Highlight both any other variations that might qualify as risk costs or use of contingency, including whether the scope of works has changed

- Explain changes in the 5-year forecasts (up to decommissioning) provided in this reporting year compared with the forecasts made in the previous year
- Explain any changes in the scope of works in a well-justified manner

Appendices

Appendix 1 – Construction phase reporting templates (tables in Excel format)