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Our ref

Your ref

Date

-

5th March 2018

Dear Louise,

## **Proposal to make modifications to the Regulatory Instructions and Guidance (RIGs)**

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to Ofgem's notice for modifications to the Regulatory Instructions and Guidance (RIGs) dated 16 February 2018.

Whilst the majority of changes being proposed are clarifications to existing reporting requirements, we note that the most significant change is the incorporation of a Strategic Performance Overview (SPO) into the commentary.

We do not have any major issues with where the SPO requires statements of factual performance (for example comparison of actual expenditure against allowance), but we do have concerns about where estimations are required.

The SPO commentary requires that estimates are made for the reasons why expenditure varies to allowances (in terms of allocating a percentage to five categories). Whilst some guidance has been provided for this estimation, subjective assessments are not typically associated with RIGs reporting, where reporting rules are quite prescriptive. Whilst Ofgem provides some reassurance that these estimations will only be used to provide Ofgem with an overview of performance, it is inevitable that the data will be used for cross-company comparisons. Basing judgements on estimates should be avoided as incorrect conclusions can be drawn, especially if companies have approached the estimation from different perspectives.

The appendix to this letter summarises where WPD has identified issues or concerns with the proposed revisions to the RIGs. This is supplemented by comments against the RIGs changes log and additional suggested amendments using track changed versions of the guidance and commentaries, submitted alongside this letter.

Should you wish to discuss any aspects of this response please contact either [amichalowski@westernpower.co.uk](mailto:amichalowski@westernpower.co.uk) or [dbroderick@westernpower.co.uk](mailto:dbroderick@westernpower.co.uk) for general reporting or [mfry@westernpower.co.uk](mailto:mfry@westernpower.co.uk) for connections reporting.

Yours sincerely



ALISON SLEIGHTHOLM  
Regulatory & Government Affairs Manager

Attachments submitted alongside this covering letter:

- Log – “Issues\_log\_publication – WPD Comments”
- Guidance – “RIGs Overview v4.0 – WPD Comments”
- Guidance – “RIGs Annex A Glossary v4.0 – WPD Comments”
- Guidance – “RIGs Annex B Costs and Volumes v4.0 – WPD Comments”
- Guidance – “RIGs Annex D Secondary Deliverables v4.0 – WPD Comments”
- Guidance – “RIGs Annex G Connections v4.0 – WPD Comments”
- Template – “cost\_and\_volumes\_reporting\_pack\_v4.0 – WPD Comments”
- Template – “connections\_reporting\_pack\_v4.0 – WPD Comments”
- Commentary – “Strategic commentary v1.0 – WPD Comments”

## APPENDIX

This appendix lists the areas where WPD has identified issues or concerns. For full details, including minor typographical changes, please refer to the log or the associated track-changed document, submitted alongside this response.

The Log numbers below refer to the Ofgem log published alongside the consultation.

### Overview

Log No.	Area	WPD comment
1	Overview document: Provision of forecast data	The change does not make is clear at what stage in a reopener application process the licensees should start to include the re-opener values in their forecasts. Should this be only when the re-opener has concluded and additional allowances have been directed, or should licensees include estimated allowances ahead of Ofgem making its re-opener determination? Note that Annex B table M17 assumes that estimated changes are made ahead of re-opener determinations.
2	Table 2.1 updated	The revision of the title has totally changed the focus of the purpose of the commentary. It is suggested that the title should still make reference to costs and volumes. It is suggested that the title should be "Strategic, Costs and Volumes".

### Annex A

Log No.	Area	WPD comment
4	Inspections – Definition	The change to the exclusion requires the addition of the word "invasive" to differentiate between diagnostic testing that can be carried out without taking equipment apart (classified as part of inspections) and diagnostic tests that require removal of equipment covers or physical connections to equipment (classified as maintenance). We suggest the following wording: "Use of <b>invasive</b> diagnostic testing"
29	Apprenticeship Levy	The definition does not actually state what the levy is for. We suggest the following wording, " <b>From April 2017 the way the government funds apprenticeships has changed. The Apprenticeship Levy is a levy on UK employers to fund new apprenticeships and support quality training. Employers with an annual pay bill in excess of £3 million are required to contribute to the Apprenticeship Levy. Employers can claim back funds from the scheme to cover the costs of training and assessment. All employers with a pay-bill over £3 million each year must pay the apprenticeship levy from 6 April 2017.</b> "

**Annex B**

<b>Log No.</b>	<b>Area</b>	<b>WPD comment</b>
8	Annex B : SI1 – Performance Summary	Following changes to the connections pack, the reference used in para 4.9 for the source in the connections pack should be changed from CR13 to CC8
17	Annex B: CV28 Occurrences Not Incentivised (ONIs)	By using the term "even if", the wording of the final bracketed statement in para 5.229 could suggest that prior year adjustments include changes in the current year. The following amendments are proposed "(i.e. <del>even if an</del> <b>although the</b> adjustment relates <del>was made to an</del> interventions in a previous year, it should be reported in the <b>cells for the current</b> Regulatory Year of reporting).
23	Table M17 Forecast	<p>The following changes need to be made to this table:</p> <p>(1) Cells R28-S30 are shaded blue and should therefore be linked to other tables. These links are currently missing.</p> <p>(2) The check formulae are missing from cells R22-T22 and R32-T32. These need to be added.</p> <p>(3) Cells T27-Y27 need to be greyed out as no input is required here.</p> <p>(4) Links in cells T36-Y37 need to be updated to reference the correct cells in table M16.</p> <p>(5) Adjustments for NIC compulsory contribution and NIA bid preparation costs in cells T13-Y13 - these should be added in the formulae rather than subtracted</p> <p>(6) Cells U14-Y18 should be shaded yellow input cells as these are forecast values not reported elsewhere in the pack</p> <p>(7) Add an additional row (as row 14) to adjust for forecast NIC compulsory contribution costs and NIA bid preparation costs, as these will be forecast values not reported on tables CV36 and CV37.</p> <p><b>The recommended changes have been made in the WPD comments version of the excel file for Annex B C&amp;V pack table M17. See changes highlighted in green. Note that the cell references in changes (1) - (6) are before the addition of the proposed row in comment (7)</b></p>
26	Directly remunerated services	<p>The reference to table CV39 DRS cells AD241-AP241 in table I2 row 27 should also be removed.</p> <p><b>The recommended changes have been made in the WPD comments version of the excel file for Annex B C&amp;V pack table M17. See changes highlighted in green.</b></p>
36	Strategic Spares	<b>We accept that separating out the costs associated with Strategic Spares gives greater</b>

		<p><b>visibility of the costs, but the requirement to keep a log of Strategic Spares with associated original costs and proposed financial treatment to move costs between tables may (depending upon existing licensee processes) require licensees to amend asset management and accounting processes. There will be additional administrative burden associated with these proposed changes.</b></p> <p>From an editorial perspective, there are some errors in paragraph 5.65.</p> <p>The first sentence currently states that "the costs of acquiring and utilising Strategic Spares are to be entered on to row 134". This is incorrect because the costs associated with utilising Strategic Spares are proposed to be reported against the activity where the strategic spare is utilised. Row 134 is used to capture the corresponding credit associated with utilising the Strategic Spare. It is proposed that the first sentence should be corrected to "The costs of acquiring and <b>the credits associated with</b> utilising Strategic Spares are to be entered on to row 134".</p> <p>The second sentence also makes an incorrect statement. It states "No volumes are reported in Table CV7,". This is incorrect because volumes associated with asset replacement activity are reported in CV7. The second sentence should make it clearer that the volumes being referred to are those associated with Strategic Spares. It is proposed that the second sentence is should be corrected to "No volumes are reported for <b>Strategic Spares</b> in Table CV7, but are recorded against the relevant row of the CV table where the <del>item</del> <b>Strategic Spare</b> is subsequently utilised."</p> <p>The third sentence also makes an incorrect statement. It states that guidance on how to treat strategic spare costs are included in the glossary. That is incorrect, because they are in the next paragraph in Annex B. It is proposed that third sentence should say "Instructions on how to record Strategic Spares costs are included <b>below</b><del>in the</del> <del>Glossary</del>."</p> <p>The introductory sentence in para 5.66 is confusing because it uses "activities" twice during the sentence. It is proposed to change the sentence to "There are two <del>activities</del> <b>treatments</b> to be considered when recording the activities relating to Strategic Spares" to align it to the terminology used in the subsequent guidance.</p>
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		The second bullet in 5.66 refers to "spare", this should be "Strategic Spare".
38	CV17 - Cost and Volumes reporting pack	Whilst the row has been 'opened up' within the reporting pack, there is no reference made to this in Annex B para 5.146. Suggest the inclusion of "Number of LV Pillars ID (Row 38)" in the bulleted list.
39	CV17 - Cost and Volumes reporting pack	Whilst the row has been 'opened up' within the reporting pack, there is no reference made to this in Annex B para 5.146. Suggest the inclusion of "Number of LV Circuit Breakers (Row 37)" in the bulleted list.
49	M17 Forecasts	Amend para 7.128 so it references row 23 of the PCFM Input tab (not Totex tab). Row references will need updating if change (7) is undertaken in log entry 23 above
51	Guidance updated to reflect changed name of Commentary	The revision of the title has totally changed the focus of the purpose of the commentary. It is suggested that the title should still make reference to costs and volumes. It is suggested that the title should be "Strategic, Costs and Volumes".
NEW	I1 - PCFM Inputs 12-13	Changes have been made on rows 28 and 34 to remove RPI adjustment. It is not clear why this change was made. The formulae in v3 of the RIGs appear to be correct, i.e. these rows should pick up the nominal price value from table I2 and then convert this to 12/13 prices through a RPI adjustment. These rows should be changed back to the formulae included in v3.

**Annex C**

<b>Log No.</b>	<b>Area</b>	<b>WPD comment</b>
1	Table 'R5a - Links'	The following issues have been identified on table R5a - Links: (1) Table R5a - Links in the pack still references the 'QoS Interruptions Reporting Pack' in cell A21. This cell should be updated to state 'QoS Interruptions Stage Data Reporting Pack' instead. (2) Rows 32-35 reference 'total severe weather payments made/due'; however these are not included on the revenue link table in the QoS Interruptions Stage Data Reporting Pack. These should be deleted from the revenue link table R5a. The corresponding rows in table R5 (rows 98,99, 101,102) should be made data entry rows, rather than being linked through to table R5a.
6	'R12 DPCR4 Losses Incentive'	Cell A1 on table R12 still references the old name of this table R12 DPCR4 Losses Incentive; this should be updated to R12 DPCR4 Losses and Growth

**Annex D**

Log No.	Area	WPD comment
	Para 2.16	The last sentence of this paragraph states "...for some movements...". These movements are those that contribute to the delivery of targets. It would be clearer to state "...for those interventions that contribute to the delivery of the targets..."
	Para 2.74	The bracketed detail in the first sentence needs an extra qualification to make it clearer that the information not provided elsewhere relates to intervention details not provided elsewhere. We propose the following amendment "(i.e. any movements in health and criticality due to Asset Register movements not covered in the data provided in other columns relating to interventions in these worksheets)"
	Para 2.97	This paragraph could be made clearer. We suggest the following amendment. "The data should represent the total volume of assets associated with the interventions population movements (not just the assets which lead to an incremental change from the in-year values).
	Para 2.133	The first sentence of this paragraph could be made clearer with the following amendment " Where the Asset Register categories which are part of an aggregated to form a Health Index Asset Category have different Probability of Failure values in the Common Network Asset Indices Methodology, the Network Asset Secondary Deliverable targets will have been set using Probability of Failure values for the Health Index Asset Category derived from an Asset Register volume weighted average."
	Para 2.139	A minor amendment to the first sentence to have grammatical consistency. "The Consequence of Failure values recorded in this worksheet will be fixed for the RII0-ED1 period to enable the measurement of a DNO's' progress towards achieving their its Network Asset Secondary Deliverables target on a consistent basis."

**Annex F**

No comments

**Annex G**

<b>Log No.</b>	<b>Area</b>	<b>WPD comment</b>
NEW 1	CC1 – Connections Reporting Pack	<p>Cells in rows 9, 10 ,12 and 13 are link cells linking to tables CC2 and CC3. No formulae for these links have been included.</p> <p>We have attached a revised Connections workbook with suggested formulae on Table CC1.</p>
NEW 2	CC1 – Connections Reporting Pack	<p>The block of data from rows 20 to 26 carried out reconciliation to the values included in Annex B Costs and Volumes.</p> <p>We suggest that it would be clearer to have a title in Row 19 of <b>“Reconciliation To Annex B Cost and Volumes Pack”</b></p> <p>Row 20 description should be amended to make it clearer that the costs entered here relate to values in C2 and C20 of the Annex B Cost and Volumes pack. We suggest : <b>“Total Gross Direct Costs from C2 and C20 in Annex B Cost and Volumes pack”</b></p> <p>We have attached a revised Connections workbook with our suggested change.</p>
NEW 3	CC1 – Connections Reporting Pack	<p>Row 24 description should be amended to make it clearer that the income entered here relates to values in C2 and C20 of Annex B Cost and Volumes pack. We suggest : <b>“Total Income from C2 and C20 in Annex B Cost and Volumes pack”</b></p> <p>We have attached a revised Connections workbook with our suggested change</p>
NEW 4	CC1 – Connections Guidance	<p>Para 2.20 should be moved to row 2.16. The resultant para 2.19 should be split, with the first sentence being a separate paragraph.</p>
NEW 5	CC1 – Connections Guidance	<p>Para 2.19 refers to rows 20 and 26, this should be rows 20 and 24.</p>
NEW 6	CC1 – Connections Guidance	<p>The resultant paras 2.19 to 2.21 (relating to the reconciliation to the Cost and Volumes pack) could be made clearer. We suggest adding a title and the following wording:</p> <p><b>“Reconciliation to the Cost and Volumes Pack</b></p> <p>2.19 Rows 20 and 24 contain input cells. The values entered here should match the reported costs within the Cost and Volumes pack.</p> <p>2.20 The total cost for Connections inside the price control should match those reported in CC2. DNOs must ensure the total gross direct costs and income</p>

		<p>match those in 'C2 – Connections Inside Price Control' in the Costs and Volumes Reporting Pack (there is no cross pack linking).</p> <p>2.21 The total cost for Connections outside the price control should match Connections outside the price control reported in CC2 and CC3. DNOs must ensure the total gross costs and income matches the total in 'C20 – Connections Outside Price Control' in the Costs and Volumes Reporting Pack (there is no cross pack linking)."</p>
NEW 7	CC2 – Connections Reporting Pack	<p>Table CC1 attempts to reconcile the Connections Pack to C2 and C20 of the Cost and Voilumes pack. CC1 should be linked to CC2 &amp; CC3 to bring in Connections Direct Costs, Indirect Costs and Income. To be able to do this an additional Indirect cost column needs to be added to Table CC2. This new columns relates to: <b>INDIRECT COSTS Connection that is subject to the apportionment rules -Duos Funded (£m)</b></p> <p>This new column would be inserted at column M</p> <p>We have attached a revised Connections workbook with our suggested changes to Table CC2.</p>
NEW 8	CC2 – Connections Reporting Pack	<p>Following on from the change referred to in Item 7 the formula in the revised column N Total Indirects should be amended to include columns K:M.</p> <p>We have attached a revised Connections workbook with our suggested changes to Table CC2.</p>
NEW 9	CC2 – Connections Reporting Pack	<p>We would question the indicative margin test on Reinforcement works in CC2. The current calculation includes Duos costs which are not recoverable directly from the customer. Including these costs will automatically generate a loss. We propose to calculate an indicative margin on only the chargeable element of reinforcement costs. The formula is revised column AG should be amended to exclude columns E and I. Suuggested formulal would be : =U9+D9+H9.This change should be applied to rows 9 to 24 inclusive.</p> <p>In addition the header for relating to columns AG to AL should be reworded to '<b>Connection Customer Funded Apportionment Related</b>'</p> <p>Also row 5 in columns AG to AL should reference whether each column is report costs or percentage.</p> <p>We have attached a revised Connections workbook with our suggested changes to Table CC2.</p>
NEW 10	CC2 – Connections Guidance	<p>We propose a change to the Guidance to explain that indicative margins relate to chargeable elements of Connections only in section 2.38:</p>

		<p><b>Indicative Margins</b></p> <p>These calculations give an indicative view of returns made on connections activity. The indirect margin is only an indicative measure of what the actual rate of return made on the relevant indirect connection activities might be. <b>All calculations are based upon the chargeable elements of the connection only.</b></p>
NEW 11	CC2 – Connections Reporting Pack	<p>Row 5 in columns Z to AE should reference whether each column is report costs or percentage.</p> <p>We have attached a revised Connections workbook with our suggested changes to Table CC2.</p>
NEW 12	CC2 – Connections Reporting Pack	<p>Cell W25 is missing a formula. Suggested formula is. =SUM(W9:W24)</p> <p>We have attached a revised Connections workbook with our suggested changes to Table CC2.</p>
NEW 13	CC3 – Connections Guidance	<p>Para 2.48 relating to disconnections is confusing. The wording would be clearer if it was reordered and differentiated between disconnections within or outside of a wider connections project. Suggested rewording:</p> <p>“The number of disconnections of service cables. This quantity must not include any service cable disconnections provided as part of a service cable transfer. In most cases these disconnections will form part of a wider Connections Project in the Connections pack, but in some cases will include individual service disconnections. DNO’s should state in their Commentary whether they have included the volumes associated with disconnections that do not form part of wider connections projects.”</p>
NEW 14	CC4 – Connections Reporting Pack	<p>Row 5 shows costs report as (£). This should be changed to (£m) to align to the Guidance.</p>
NEW 15	CC4 – Connections Guidance	<p>Para 2.48. Missing ‘has’.</p> <p>“The purpose of this worksheet is to provide a snapshot of all Connection Projects that were financially closed within the Regulatory Year, and to see whether a DNO <b>has</b> over or under recovered its direct costs.”</p>
NEW 16	CC4 – Connections guidance	<p>After the table in para 2.51 insert the following two missing paragraphs:</p> <p><b>Number of Connections</b>  <b>Record the number of connections provided for all the connections projects within each market segment that were financially completed in the reporting year.</b></p>

		<p><b>Number of Projects</b> Record the number of connections projects within each market segment that were financially completed in the reporting year.</p>
NEW 17	CC4 – Connections guidance	<p>The title for para 2.52 should be changed to match table column header:</p> <p><del>“Margin included in the quotation offer”</del> should be changed to <b>“Applied Margin on Directs”</b> This para should also be moved to after para 2.69 (Total direct costs -over/under recovery – (%))</p>
NEW 18	CC5 – Connections Guidance	<p>Para 2.76 should refer to Table CC4 not CT5.</p> <p>“The table requires connection offers to be summarised by number of quotes and the final quoted value for each of the Metered Connection Categories detailed in <del>CT5</del>C4.”</p>

**Annex H**

No comments

**Annex J**

No comments

## Strategic Commentary

In addition to including some typographical corrections/narrative suggestions in the track changed version of the commentary, we have the following more substantive comments

Log No.	Area	WPD comment
	Document purpose 1 <sup>st</sup> sentence	The document states that its purpose is to provide an understanding. This is grammatically incorrect because DNOs provide an explanation and Ofgem gains an "Understanding". We suggest changing "provide a strategic understanding" to "provide an explanation"
	Section A Part 1 Strategic Summary guide length	Section A current states that it should be two pages long. There is a lot of detail required to fit onto two pages. This would mean that each of the four sections (including a CEO statement and company board chairman statement) would be about half a page. Is this guide length practical? Would it more appropriate to have a page per section?
	Section A Part 3 Table	It is unclear what the £m is referring to. Is this £m awarded or spent? Is this cumulative in ED1 to date, or in year only?  Furthermore the third entry should not make reference to Innovation Funding Incentive, as this is a DPCR5 incentive that is no longer relevant in RIIO-ED1.
	Section A Part 4 RoRE	This table should make reference to RoRE not Return on RAV. It should also include Incentive on Connections Engagement and Fines and Redress Payments to make it consistent with presentation in previous RoRE reporting.
	Section A Part 5 Sub-part a Totex Performance Summary	There is a typo in the table which repeats 'Non Load Capex (excluding Non-Operational Capex)'. The second entry should be 'High Value Projects'.
	Section A Part 5 Sub-part a Totex Performance Summary	Additional guidance is required on how the data should be presented. In the outputs section, there is a clear instruction to only have one table per DNO group. Here the expectation is different; where the requirement is one table per DNO. We propose the addition of the sentence "There should be a complete table/graphic produced for each DNO" to make the expectation clear.  Furthermore, the instructions for the completion of the table should be clear on whether the values should reconcile back to 'TOTEX' allowances. If so, guidance should be provided as to whether totex adjustments (e.g. disallowed related party margin, scrap/disposals proceeds, DRS8) are included in 'other costs within price control' or shown in an additional row in the table? <b>Total costs in the price control reported as per C1 in Annex B are not the same as TOTEX.</b>

	Section A Part 5 Sub-part b	Point 1 requires licensees to report expenditure against allowances, but this appears to duplicate the requirements of sub-part a
	Section A Part 5 Sub-part b	Point 2 refers to cost pressures and requires a forecast. It is unclear what this is a forecast of.
	Appendix 2: RAG rating guidance	The note against environmental measures for determination of an Overall RAG status only refers to how the individual measures were derived. It does not specify how the three individual measures are combined to give an overall RAG status.

**Connections Commentary**

No comments