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Our ref

Your ref

Date

-

21st March 2019

Dear Victoria,

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 8 March 2019.

We note that the consultation for RIGs changes does not close until 5 April 2019 and therefore the final versions of the RIGs will not be issued until later in April 2019. Given that the regulatory year closes on 31 March, we will not have certainty of the reporting rules and expectations until sometime later. We will also not have final templates for populating historic and current data. This makes the production of the RIGs returns more challenging by reducing the time available for data compilation and review.

Whilst the majority of changes being proposed are clarifications to existing reporting requirements, the most significant change is the introduction of Regulatory Financial Performance Reporting (RFPR) – Annex L for Electricity Distribution.

WPD has been fully supportive of the desire for more transparency with regards to financial performance reporting. We were the first DNO to publish a RIIIO Accounts proposal which was a significant step towards the RFPR. The development of RFPR has required considerable effort by all parties across the sectors and the finalised tables will be dependent upon feedback from RIGs consultations from all those sectors. RIGs consultations for some of the other sectors are running later than the timetable for electricity distribution and do not close until 11 April. This gives us cause for concern because incorporation of feedback on RFPR from all sectors will mean that there is further delay until final ED RIGs will be issued.

As per previous years, we would actively encourage Ofgem to commence the RIGs review process earlier to ensure that final RIGs are issued ahead of the end of the regulatory year so that reporting can start in earnest. We are pleased that for changes to existing RIGs, Ofgem did engage early, but it is disappointing to have the introduction of the

RPPR causing delays to the issue of the RIGs and concerning that there will be further delays due to the reliance upon feedback from other sectors.

The delay to the non-RFPR part of the RIGs could be avoided if the revised RIGs were issued in two tranches; the first for the existing annexes and the second for RFPR.

We reiterate the concerns that we raised about the Strategic Performance Overview (SPO) commentary last year. The SPO continues to require estimations for the reasons why expenditure varies to allowances (in terms of allocating variance across different reason categories). Whilst some guidance exists for this estimation this has not been expanded further or clarified using experience from 2017/18. Subjective assessments are not typically associated with RIGs reporting where reporting rules are quite prescriptive and detailed. Whilst Ofgem provides some reassurance that these estimations will only be used to provide Ofgem with an overview of performance, it is possible 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 submitted alongside this response.

Should you wish to discuss any aspects of this response please contact either amichalowski@westernpower.co.uk or dbroderick@westernpower.co.uk for general reporting or mfry@westernpower.co.uk for connections reporting or kbartlam@westernpower.co.uk for RFPR.

Yours sincerely

ANDRZEJ MICHALOWSKI
Planning & Regulation Special Projects Manager

APPENDIX

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

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

Overview

Log No.	Area	WPD comment
3	Overview document: Paragraph 3.10 Addition of text to clarify the treatment of undefined terms in the RIGs	It is inappropriate to reference undefined terms to several different alternative sources of definition, because some of these alternative sources may have different versions of the definitions or the definitions in the alternative sources may be made in different contexts to how they are used in the RIGs and are therefore are not applicable. The additional sentence should be removed.

Annex A

Log No.	Area	WPD comment
2	Glossary: Asset Replacement Definition	"Asset Repairs instigated by trouble calls" is a defined term and therefore should be capitalised.
5	Glossary: Persistent Organic Pollutant remedial oil changes	The title should be capitalised because it is a defined term
6	Glossary: Persistent Organic Pollutant oil testing	The title should be capitalised because it is a defined term
7	Glossary: Persistent Organic Pollutant remedial asset changes	The title should be capitalised because it is a defined term
10	Glossary: Smart Meter Interventions - Proactive Interventions	Amend second bullet point as follows: "Where the DNO receives a notification of a defect during a smart meter installation from a meter operator and can identify other properties in the same area or same set of circumstances that may have the same issue." There is a risk that the third bullet point could allow a DNO to record <u>any</u> cut-out defect as being associated with the smart meter rollout. WPD believes that this definition is too loose and would lead to the inclusion of volumes that are not positively related to the smart meter rollout. We suggest that the third bullet is removed.

Annex B

Log No.	Area	WPD comment
13	Cost and Volumes Reporting Pack - CV 31 - Repairs and Maint	<p>Cells G81 and G84 have no units, should be 'assets with intervention during the year'.</p> <p>Cells G132:G136 relate to substations not assets and therefore should be 'substations with intervention during year'</p>
16	Cost and Volumes Reporting Pack - Naming Convention Changes	<p>Two inconsistencies remain: Change B - '6.6/11kV Transformer (GM)' has not been applied to cell E71 in CV7 Cell E106 in CV7 does not contain a space at the end for '33kV Transformer (GM)'. It does in all the other tables.</p>
26	Cost and Volumes Reporting Pack - Table C2 - Connections inside PC	Row 149 should be linked to row 19 in the table
27	Cost and Volumes Reporting Pack - Table C20 - Connections Outside PC	Row 42 should be linked to row 19 in the table
28	Cost and Volumes Reporting Pack - Table CV25	<p>There is also table CV25d - Subsea Cables Reactive. This should also be referenced as an additional tab in the change description.</p> <p>Data from Table CV25d is not included in the summary table CV25 - the formula links should be updated to include this also.</p> <p>Tables CV25a - check cells in rows 22-23 could be populated. Row 22 to check row 17 to row 141; row 23 to check row 20 to row 171.</p> <p>Table CV25b - check cells in row 22 could be populated. Row 22 to check row 17 to row 169</p> <p>Table CV25c - check cells in row 22 could be populated. Row 22 to check row 17 to row 169. Current check on row 173 is incorrect and should be removed (row 173 is currently linked to shaded out cells in row 131)</p> <p>Table CV25d - check cells in row 22 could be populated to check row 17 to row 169.</p> <p>Table CV25d - correct formulae in cells N169:Y169 by copying over formula in cell M169.</p> <p>Table I2 cells AJ91:AQ97 and AJ170:AQ176 require updating with the correct links to table CV25 (these currently include REF errors).</p> <p>Check sheet - update cell D126 to the updated name for table CV25. Additional rows could also be included to include the suggested checks above on</p>

		tables CV25a-d
34	Annex B Guidance - CV34: Smart Meter Intervention DNO	<p>Paragraph 5.286: reference to paragraph 5.276 is incorrect. As Proactive Intervention is defined within the glossary, a reference to another paragraph within the guidance seems superfluous, and this paragraph should be amended accordingly:</p> <p>5.286 In such case the licensee should treat the intervention as a Proactive Intervention. in accordance with paragraph 5.276.</p>
35	Annex B Guidance - M18: Full Time Equivalent	<p>Paragraphs 7.120 and 7.123 contradict each other. Para 7.120 says that either the total number of FTE or the proportion of FTE can be populated in the table. Para 7.123 states that it should be the total number of FTE. Please confirm if DNOs still have a choice of whether to use total number or proportion.</p>
36	Annex B Guidance - Asset Base	<p>Following the addition of tables CV25 a-d, para 5.8 should state '36 CV tables also...'</p>
37	Annex B Guidance - CV25 (a-d) Moorside, Shetland and Subsea cables	<p>Title before para 5.197. The title should reflect the worksheet name (i.e. CV25 - Moorside, Shetland, Sub) .</p> <p>Para 5.198. The final sentence should state 'It is auto populated from from worksheets CV25a-d and requires no input from the DNO.'</p> <p>Para 5.200 is incorrect; disaggregation is required. It should state 'Costs are required by Cost Type only. No further dDisaggregation of costs by investment driver is also required.</p> <p>Para 5.202 It is unclear what is meant by 'efficient costs' and 'other costs'. Do definitions for these exist?</p> <p>Para 5.203 refers to 'our'. Is this referring to SSEH or Ofgem?</p> <p>Para 5.205 does not make sense and is referring to incorrect rows.</p> <p>Para 5.208 makes no reference to the costs and volumes to be recorded.</p> <p>Para 5.209 what is meant by 'correct year'? Should this be 'year in which costs are incurred'?</p> <p>Para 5.210 This has the statement 'The costs would be the <u>total</u> costs for Diesel Generation for the <u>duration</u> of the project...' This appears contrary to other reporting in the RIGs which is carried out on a cash and accruals basis. Should this be 'The</p>

		<p>costs would be the total costs are for Diesel Generation for the duration of during the project...'?</p> <p>Para 5.213 makes no reference to the costs and volumes to be recorded.</p> <p>Para 5.215 This has the statement 'The costs would be the <u>total</u> costs for Diesel Generation for the <u>duration</u> of the project...' This appears contrary to other reporting in the RIGs which is carried out on a cash and accruals basis. Should this be 'The costs would be the total costs are for Diesel Generation for the duration of during the project...'</p>
42	Strategic Commentary 2.0 - 3. Innovation Performance	'Innovation Activity in Primary Output Areas' Possible typos, we suggest the following revision "Please provide a brief explanation on how DNOs' innovation projects that are in progress/completed impact impacting in primary output areas outlined in part 2 of section A.
54	Annex B Guidance - C2: Connections Inside the Price Control	Cost Recoveries is not an activity type. This comment should be removed. 4.37 is sufficient
55	Annex B Guidance - C20: Connections Outside Price Control	Cost Recoveries is not an activity type. This comment should be removed. 4.117 is sufficient
56	Strategic Commentary 2.0 - Appendix 3: List of C&V worksheets in eight main cost categories	CV20 Visual Amenity is now included in 2 cost categories: Non Load Capex and Other Costs Within PC. It should be in one only and therefore Ofgem need to confirm where this table should sit.
NEW	Cost and Volumes Reporting Pack - Check sheet	Change table references in cells D207 and D208, as these tables no longer exist (they are now called 'SpareX' and 'SpareXX'). Grey out cells M207:Y207, as there is no check to link to.
NEW	Cost and Volumes Reporting Pack - I6 - RPI	Cell AL9 should be populated with the known RPI index value (274.908). Cells AK9:AL9 should be coloured grey as pre-populated values
NEW	Strategic Commentary 2.0 - 9. Cost and volume performance: allocation and estimation methodologies	Remove references to tables M10 Shetland and M11 Subsea Cables (tables now removed from Annex B pack) Include new row for new table M18 FTE
NEW	Strategic Commentary 2.0 - Appendix 1: List of C&V worksheets and commentary requirements	Remove references to tables M10 Shetland and M11 Subsea Cables (tables now removed from Annex B pack) Include new row for new table M18 FTE
NEW	Navigation - cell D73	The hyperlink reference for table CV25 is invalid and needs to be corrected
NEW	Cost and Volumes Reporting Pack - I2 - PCFM Inputs Nominal	This table has been updated so NIC bid preparation costs are now included in Totex. A decision on the NIC governance documents was issued by Ofgem on 30th June 2017 which stated that Bid Preparation Costs (BPC) for projects which pass the ISP in or after regulatory year 2018/19 should be treated as Totex. This decision said that

		changes would be made to the RIGs and the RIIO Financial Handbook to reflect this. As the RIGs change has now been made, WPD therefore re-iterate that the change to the Financial Handbook should be made also.
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Annex C

No comments/issues

Annex D

Log No.	Area	WPD comment
New	Probability of Faillure Values Worksheet	Column C and Columns O-S should be blank (currently contain test data). Remove pre-populated data
New	Probability of Faillure Values Worksheet	Rows 92-99 - Contains a comment from Gav Howarth. Delete the comment and the table of HI ratings
New	Consequences of failure worksheet	Column C and Columns O-S should be blank (currently contain test data). Remove pre-populated data

Annex E

No comments

Annex F

No comments

Annex G

No comments

Annex H

Log No.	Area	WPD comment
4	New Paragraph 3.7: Procedures to mitigate the risk of bias - new guidance	<p>The third bullet point requires further clarification.</p> <p>It needs to be clearer that excluding calls to unpublished numbers in general enquiries is valid, however the active use of unpublished numbers to deliberately exclude customers who would otherwise be surveyed could result in bias.</p> <p>We propose the following change.</p> <p>"The DNO must take reasonable steps to ensure it does not use unpublished telephone numbers or other contact channels in such a way that would result in customers not being included in the customer satisfaction survey population."</p>

Annex J

Log No.	Area	WPD comment
3	Updated terms defined in Annex A - Glossary	Defined terms should be capitalised
7	Paragraph 3.11: Additional paragraphs added in Data administration section	This is overly complicated.

Annex L

Log No.	Area	WPD comment
NEW	RIGs document	Paragraph 1.20 states (square brackets added) "Unless stated otherwise, the Licensees must provide the information required under the RIGs as soon as reasonably practicable and in any event, no later than 31 July following the end of every relevant reporting [] to which such information relates." We propose alternative wording "Unless stated otherwise, the Licensees must provide the information required under the RIGs as soon as reasonably practicable and in any event, no later than 31 July following the end of every reporting year." This makes is clear that information relating to future years should also be reported.
NEW	RIGs document	Paragraph 1.26 - it seems the wording "or a person nominated by Ofgem ('a reviewer')"

		the information."
NEW	RIGs document	We note that the RFPR RIGs document contains detailed information regarding resubmission of RFPR data, and states that permission must be sought from Ofgem before resubmitting any information. However, this version of the RFPR is different from 1) the version of the RFPR tables completed and submitted by licensees in November 2018 and 2) the version of the RFPR tables published by Ofgem alongside the 2017-18 Annual report. Please can Ofgem specify that no permission is required for licensees to update historic RFPR data into this latest template using the data in the 2017-18 RFPRs which have been published. Further, data for forecast years is likely to be revised over time, and similarly where actuals are then known.
NEW	RIGs document	In the R2- Revenue Instructions for Completion, the description of rows 19-24 states that these adjustments are to reconcile to the Statutory Accounts. Rather, these adjustments are to reconcile to Allowed Revenue.
NEW	RIGs document	In the R3 - Reconciliation to Totex Instructions for Completion, the description of rows 9-14 should read: "In rows 9-14 enter values (where applicable) as per statutory financial statements. Where the statutory financial statements contain additional line items, Licensees should add additional lines to the template include these in the free entry rows 15-17."
NEW	RIGs document	In the R6 - Innovation Instructions for Completion, the reference to row 22 should now be to row 20, the reference to row 24 should now be to row 21 and the reference to row 26 should now be to row 23.
NEW	RIGs document	In the R7 - Instructions for completion, the reference to row 77 should now be to row 78.
NEW	RIGs document	In the R8 - Instructions for completion, the reference to rows 40, 41 and 45 should now be to rows 41, 42 and 46 respectively.
NEW	RIGs document	In the R8a - Instructions for completion, the reference to cells C288:C299 should now be to cells C287:C298. References to rows 310-313 should now be 309-312. Similarly, references to rows 318:321 should now be 317:320, to 326:327 should now be to 325:326 and to 332:333 should now be 331:332.
NEW	RIGs document	In the R10 - Tax, Instructions for Completion, the reference to rows 25-34 should now be to rows 24-33. Similarly, references to row 37 should now be 36, to 61 should now be to 60, to 62 should now be 61, to 67 should now be to 66 and to 68 should now be to 67. References to rows 72-74 should now be to rows 71-73.
NEW	RIGs document	Paragraph 3.2, 5th bullet - we propose the wording is updated to read "an explanation of how any costs

		have been allocated across the company/licensee for the purposes of RFPR reporting ".
NEW	R2-Revenue	Given we are not required to provide a forecast within this tab we note that rows 15,17,18 for those years headed 'Forecast' will continue to return values from other worksheets within the RFPR which do require forecasts. In order remove any RFPR reader confusion, as forecast years are not required in this tab, please can Ofgem amend the formula in rows 15,17,18 to only return values when the associated year cells in row H states 'Actual' etc.
NEW	R3 - Rec to Totex	We note that the error check in this table has now been set to £0.1m. Given that this check is back to values in statutory accounts which are already stated to 1 d.p. the check was to integer precision in the RRP table this table is replacing - see row 45 of ED RRP table F8. We propose that the check to integer precision should be reinstated.
NEW	R3 - Rec to Totex	We note that three additional rows have been added at rows 15-17. However the total in row 18 is still only summing values down to row 14 when it seems this should now include rows 15-17. Similarly, we note that three additional rows have been added at rows 20-22. However the total in row 23 is still only summing values in rows 18-19 when it seems this should now include rows 20-22.
NEW	R5 - Output incentives	a. We note that rows 82-101, for forecast years have been shaded as 'No input' cells when the RIGs and RFPR descriptions suggest we are required to do so. Was the intention to only grey out cells H102 to K102 given these cells link to 'R2-Revenue' tab which require no forecast values etc? b. R1-RoRE requires forecast information from 'R5-Output incentives' so unsure why the cells in rows 46-75 have been greyed as 'No input' cells? Suggest colour format amended back to green.
NEW	R7 - Financing and RIGs document	Wording in the RIGs has not been updated to reflect the moving of what was row 31 in previous version ("Of which, non cash principal inflation accretion on bonds and loans") to row 35 "Net interest including forecast new financing that relates to principal inflation accretion on bonds and loans". Further, given the title change for this row, it is now not clear what should be entered in row 35. We suggest the title "Memo: non cash principal inflation accretion on bonds and loans". Wording in the RIGs guidance referring to rows 32 and 33 should then be updated to refer to rows 31 and 32.
NEW	R7 - Financing	Text in row 76 should now refer to row 79. It should be noted that true forecast Cost of Debt values from 2020/21 onwards are not included in the PCFM; rather these values are set to equal the latest determined Cost of Debt (i.e. 2019/20). This does not therefore represent a true forecast and the difference therefore between rows 78 and 79 is

		more significant for these years as it also reflects the difference between the forecast cost of debt (included in rows 61:68 of the Data worksheet) and the values included in the PCFM. This also means that the RIIO 1 value calculated in cell M78 does not reflect a true forecast. Suggest that cells I78:K78 are greyed out for 18/19 reporting, and the calculation in cell M78 is removed.
NEW	R7 - Financing	Error check in row 33 does not check the absolute value of the difference; only that it is less than 0.1. Therefore, if the difference was -100, a value of OK would still be returned.
NEW	R7 - Financing	a. Please amend formatting on row 69 to 1 decimal place. b. Formatting of row 87 & 89 required to align to row 85, i.e. show underperformance within () brackets.
NEW	R7a - Finance Input	a. Propose row 477-478 could be linked to rows 464 and 461 respectively?
NEW	R8 - Net debt	Error check in row 44 does not check the absolute value of the difference; only that it is less than 0.1. Therefore, if the difference was -100, a value of OK would still be returned.
NEW	R9 - RAV	In rows 19 and 22 for the current reporting year and forecast years can it be made clear that these values will not be per the latest published PCFM given we are required to reflect 'forecast Totex' which would be derived from the reporting years RRP submission.
NEW	R9 - RAV	Error check in row 32 seems to be including price base indicator in C31. Also the check in this row does not check the absolute value of the difference; only that it is less than 0.1. Therefore, if the difference was -100, a value of TRUE would still be returned.
NEW	R10 -Tax	a. There is no mention in the RIGs document relating to the additional rows 85-88 and how entries in these rows should be calculated. b. Should these rows then adjust R1-RoRE to put Debt performance post tax in line with other RoRE drivers? And subsequently Tax performance adjusted to ensure net impact zero? c. Unsure why cells G22-K22 and G23-K23 have been shaded as 'No input' cells given these auto populate.