Utility Regulator
ELECTRICITY GAS WATER

Financial Data RIGs
Commentary Template RP6
October 2017 to March 2023



Electricity Financial Data RIGS Commentary Template

Contents

1. Introduction

1.1 Overview

1.1.1 A commentary template provides the opportunity for the Licensees to explain why costs/volumes have been incurred, any movements between different time periods, and the reasons for variations between forecast costs/volumes and outturn. As set out in the associated Guidance Notes, the commentary will be used in conjunction with the wider reporting framework (including the Financial Data RIGs Reporting Workbook), to understand the structures and operations of the Licensee, to inform the next price control and to monitor performance against the current price control assumptions.

1.1.2 A full and frank commentary should reduce the number of follow up questions and time spent by both the Authority (UR) and Licensee staff.

1.1.3 This document has been created such that the Licensee shall insert their comments in the sections identified below in yellow. No additional or freeform document need be created but instead we request the Licensee insert an appropriate chapter heading and commentary box in the body of this document where it is necessary to provide additional commentary.

1.1.4 Backup documents referenced in the commentary should be attached as Annexes to the submission of this commentary. An electronic copy of any Annex shall be provided. The file name used for the electronic copy of any Annex should include a reference to the relevant section of the commentary and be structured so that the order of the file name is the order they appear in the commentary.

2. Commentary tables for the Reporting Workbook

2.1 Introduction

2.1.1 For the Financial Data Reporting RIGs workbook we set out the categories of commentary as follows:

2.1.2 **Additional Information**

The comments in this section relate to the Financial Data RIGs workbook '2017-23 Financial Data RIGs v1.0' which shows Financial Data RIGs information for NIE Networks, in relation to the RP6 period October 2017 to March 2023, against the relevant licence terms contained in Annex 2 of the Transmission and Distribution licences. The information shown in the Financial Data RIGs is stated on an IAS 19 basis to align with how allowances have been set and to enable reconciliations to the Regulatory Accounts. The figures included in the capital allowances section of the Financial Data worksheet (rows 413 to 429) contain actual figures from October 2017 to March 2021 and estimated figures thereafter. NIE Networks recognises that both the UR and NIE Networks will continue to learn through the development of RIGs and welcomes any feedback for consideration in future submissions. Any figures quoted in this document are in nominal prices unless otherwise stated.

2.2 The Navigation ('Nav') worksheet

2.2.1 Key, version submission control and worksheet sections

This worksheet helps us to navigate the workbook. It contains two sections: the Version submission control; and Worksheets, each of which are described below.

This worksheet contains details of the submission date, the version number and the document name.

2.3 The Change Log worksheet

2.3.1 All

This worksheet records any changes to the workbook
<u>Changes to prior year data</u> **Financial Data Worksheet** <u>Storm Costs</u> For the RP6 period to the 31 March 2023, NIE Networks has experienced six severe weather events that have met the exemption threshold - Ex-Hurricane Ophelia (16-18 Oct 2017), Storm Eleanor (2-5 Jan 2018), an unnamed Storm (16-17 Jan 2018), Storm Hector (13-15 June 2018), Storm Ali (19-22 Sept 2018) and Storm Franklin (20-22 Feb 2022). Costs in connection with the first four events had been reported within Indirect & IMF for the period October 2017 to March 2019. A reclassification of these costs has been undertaken to move them from Indirect & IMF (row 42 capex and row 185 opex) to severe weather events (row 48 capex and row 198 opex). This has resulted in Indirect & IMF costs reducing by £1.821m, of which £1.627m was in the period October 2017 to March 2018 and £0.194m was in the period April 2018 to March 2019. Severe weather costs have increased in these periods by the same amount. The following adjustments have been undertaken. 4.17 Qualifying capital expenditure amount - QCE_X_t • Cell N42 has reduced from £3.623m to £2.675m (a reduction of £0.948m) • Cell O42 has reduced from £7.145m to £7.085m (a reduction of £0.061m) • Cell N48 has increased from £0 to £0.948m (an increase of £0.948m) • Cell O48 has increased from £0.647m to £0.708m (an increase of £0.061m)

6.3 Qualifying opex expenditure amount – QOE_t

- Cell N185 has reduced from £5.459m to £4.781m (a reduction of £0.678m)
- Cell O185 has reduced from £8.305m to £8.171m (a reduction of £0.134m)
- Cell N198 has increased from £0 to £0.678m (an increase of £0.678m)
- Cell O198 has increased from £0.658m to £0.792m (an increase of £0.134m)

Other Adjustments

- Cell R140 has changed from £0.331m to £1.436m (an increase of £1.105m). This is due to the inclusion of 2,096 LCT Volumes for the period from August 2021 to March 2022 * the unit allowance of £438.52 (2015/16 prices) or £527.24 in 2021/22 prices (2,096 * £527.24 = £1.105m). These volume allowances had not been included in the 2022 submission.
- Cell R234 now includes an allowance of £0.176m in relation to apprenticeship levy costs which were approved on the 24 October 2022 under the COL_t term.
- Cell R235m has increased from £0.187m to £0.293m (an increase of £0.205m) in relation to TIBCO additional support charges which were approved on 16 September 2022 under the NES_t term.
- Cells R245 and R405 which show the average specified rate now reflects actual data. The figure has changed from a forecast of 1.188% to an actual figure of 2.396%.
- Cell R398 now includes an allowance of £0.267m in relation to injurious affection costs approved by the regulator on the 22 December 2022 under the IA_t term.
- Cell R399 now includes an allowance of £0.025m in relation to apprenticeship levy costs approved by the regulator on 24 October 2022 the under the change of law (COL_t) term.
- Capital allowance data in rows 413 to 429 have been updated (where appropriate) to reflect actual figures for the period 2017/18 to 2020/21.

Structural Changes to Workbook

Financial Data Worksheet

- A new row (row 66) has been included under Qualifying capex expenditure amount - QCE_D5Y_t in relation to Green Recovery - EV Managed Charging Innovation.

Rec 1 – OPEX

- A new row (row 44) has been included to show the original cost of disposals. The amount of £0.030m included in 2022/23 relates to the original cost of land at Stewart Street.

Rec 2 – CAPEX

- New rows (row 15 and 34) have been included within Non-Annex 2 in relation to provision costs associated with the disposal of Creosote treated wood poles.

2.4 Financial Data RIGS worksheet

2.4.1 RP6 Distribution variance analysis

Please explain the variations between determined costs/volumes and outturn. Please also explain why costs/volumes have been incurred and any movements between different time periods. A full and frank commentary should reduce the number of follow up questions and time spent by both the Authority (UR) and Licensee staff. This explanation should include commentary on each of the paragraph headings in 'column C' of the 'Financial Data' RIGs and the breakdown of each of these as appropriate.
3.4 Maximum regulated distribution revenue for the regulatory reporting year – The value for the BD_t term (which represents uncollected revenue) is nil for the period October 2017 to March 2023. **4.17 Qualifying capex expenditure amount** – This represents actual capital expenditure costs (direct and indirect) allocated to the Distribution, Metering and 5-year Distribution RABs for the period October 2017 to March 2023. Distribution capex additions (Direct and Indirect) for this period were **£409.149m** and includes **£0.499m** of RP5 carry over expenditure. An analysis of direct Distribution capex, for the period October 2017 to March 2023, is set out in the 'Reporting' worksheet within the RP6 Network Investment RIGs with a detailed breakdown of the RP5 carry over spend shown in the 'RP5 carryover works' worksheet. Metering capex additions of **£34.765m** includes both the direct capex costs associated with the installation, certification and recertification of meters along with capitalised overhead and indirect costs. Capex additions for the Distribution 5-year RAB are **£64.737m,** which includes; • Tree cutting costs of **£19.695m.**

- Expenditure of **£4.122m** on innovation trials, **£0.135m** on Green Recovery - EV Managed Charging Innovation, **£1.652m** on ESQCR tree cutting costs and DSO Transition costs of **£0.656m** which are detailed in the 'Reporting' worksheet within the RP6 Network Investment RIGs.
- Non-Network IT spend of **£34.067m.**
- Expenditure associated with the IT project for the introduction of contestability in the electricity network connections business of **£1.956m**. The allowance for this project was £4.753m (Nominal Prices). Expenditure of £2.784m was incurred during RP5 which means that total spend up to March 2023 is £4.741m (£2.784m + £1.956m).
- Capex costs incurred to March 2023 on the TIBCO system separation project of **£2.454m.** Approval of £2.560m (2020/21 prices) was granted by the UR in September 2021.

4.19 & 4.23 Demonstrably inefficient qualifying capex expenditure – This is zero as no capex expenditure has been deemed demonstrably inefficient or wasteful for the period October 2017 to March 2023.

4.21 Pass through capex expenditure amount – This represents net connections costs (capex less contributions) associated with housing sites with twelve or more domestic premises. The net capex amount from October 2017 to March 2023 is **£18.768m** and represents construction activity in the housing market over that period.

4.28 Capex disposal amount – This relates to proceeds from the disposal of any relevant asset (including land, buildings, plant, equipment but not comprising Landbank premises or scrap) minus any costs of such disposal reasonably incurred. Asset disposals are deducted from the RAB five years after the disposal occurs.

There were net proceeds from the sale of assets in 2012/13 of **£0.032m**, **£0.049m** in 2014/15, **£0.004m** in 2020/21 and **£0.015m** in 2021/22 which related to the sale of land at substation sites. Net proceeds from the sale of assets in 2022/23 of **£1.306m** mainly relating to the sale of land at the slopes Rathfriland and Stewart Street Belfast.

4.32 Allowed capex for 5 Year D.RAB – This represents allowed capex of **£2.257m** (2015/16 prices) for the TIBCO System Separation Project. This is an IT project to separate the integrated retail market systems due to the divergence of the markets in

NI and ROI. Approval of £2.560m (2020/21 prices) capex costs was granted by the UR in September 2021.

4.35 Volume of properties with undereaves service – This represents the number of undereave services units replaced during the period October 2017 to March 2023 of **14,630**. The allowance for undereave work is determined by multiplying these units by the pre-determined unit rate shown in row 136.

4.37 Additional allowed capex – This represents any amount that the Authority determines, in a published decision, to be appropriate for the expected incremental efficient costs of: a) any nominated distribution project; b) trials undertaken to assess and demonstrate innovative future investment in the Distribution System; c) any project to address load growth due to the introduction of low carbon technologies; and, d) any project to address congestion on the 33kV network for purposes relating to connections made, or to be made, between the Distribution System and any premises owned or occupied by the owner or operator of an electricity generation set ('generation connections')

The figures for the period are **£28.274m** (nominal prices). This relates to;

1. An innovation trial allowance granted by the UR in July 2018 of **£7.086m** (nominal prices) or £6.359m (2015/16 prices) with actual costs shown in row 65.

2. **£3.095m** (nominal prices) of the £3.465m (2020/21 prices) DSO Transition – NMS upgrade (phase 2) costs approved by the UR in April 2021, with actual costs shown included in row 68.

3. **£0.656m** (nominal prices) of the £3.110m (2019/20 prices) DSO Transition – HV/LV monitoring costs approved by the UR in April 2021, with actual costs shown in row 72.

4. LCT Re-opener costs of **£3.671m** (nominal prices) or £2.822m (2015/16 prices) approved by the UR in July 2021

5. Green Recovery - EV Managed Charging Innovation costs of **£0.135m** (nominal prices) or £0.098m (2015/16 prices) of the £1.747m (2020/21 prices) approved by the UR in February 2022, with actual costs shown in row 66.

6. Green Recovery costs of **£13.632m** (nominal prices) or £9.931m (2015/16 prices) of the £41.224m (2020/21 prices) approved by the UR in May 2022.

4.46 Metering volumes – This represents actual meter volumes for the period October 2017 to March 2023 associated with meter installations/changes, meter recertification and the meter replacement for theft programme. These figures align with the information in rows 97 to 111 (columns D to I) of the 'M1a – Metering Services' worksheet contained in the Metering RIGs reporting workbook.

4.53 Allowed capex amount – This represents allowances given under the capex change of law term ($ACCOL\_X_t$). Approval was granted in July 2020 for £0.364m (nominal prices) or **£0.332m** in 2015/16 prices in relation to General Data Protection Regulation (GDPR) expenditure.

6.3 Qualifying opex expenditure amount – The amount of **£334.874m** from October 2017 to March 2023 comprises Indirect & IMF expenditure, ongoing Enduring Solution IT costs, Meter reading, other Market Operations costs, severe weather costs, severance costs, storm costs and business rates less O&M, tort, scrap and miscellaneous income.

6.5 & 6.9 Demonstrably inefficient qualifying opex expenditure – This is zero as no opex expenditure has been deemed to be demonstrably inefficient or wasteful for the period October 2017 to March 2023.

6.7 Pass through opex expenditure – The amount of **£9.064m** includes the Distribution allocation (80%) of UR licence fee costs and net connection operating costs associated with housing sites with 12 or more domestic premises.

6.15 Allowed opex other amount – These relates to additional RP6 approvals by the UR. Approvals for the period October 2017 to March 2018 were in relation to, **£28k** of injurious affection costs which were approved on the 8 January 2019 under the IA_t term and **£106k** of apprenticeship levy costs which were approved on the 13 June 2018 under the change of law COL_t term.

Approvals for the period April 2018 to March 2019 were in relation to, **£175k** of apprenticeship levy costs which were approved on the 30 June 2020 under the COL_t term.

Approvals for the period April 2019 to March 2020 were in relation to, **£179k** of apprenticeship levy costs which were approved on the 26 October 2020 under the COL_t term. Approvals for the period April 2020 to March 2021 were in relation to, **£177k** of apprenticeship levy costs which were approved on the 14 March 2022 under the COL_t term. Approvals for the period April 2021 to March 2022 were in relation to, **£176k** of apprenticeship levy costs which were approved on the 24 October 2022 under the COL_t term. Approvals for this period also include **£87k** (£82.5k 2020/21 prices) of TIBCO Licence fee costs which were approved on the 29 September 2021 and **£205k** (2021/22 prices) of TIBCO additional support charges approved on 16 September 2022 under the NES_t term. Approvals for the period April 2022 to March 2023 were in relation to **£240k** (£198k 2020/21 prices) of TIBCO Licence fee costs which were approved on the 29 September 2021 and **£469k** (£411k 2021/22 prices) of TIBCO additional support charges approved on 16 September 2022 under the NES_t term. **10.1 Revenue protection service revenue** – This represents income received in relation to activities to detect and deter cases of illegal abstraction of electricity (and electricity theft) and to collect money owed in relation to that illegal abstraction. **11 Correction factor amount** – This shows actual Distribution income received from Suppliers for the period October 2017 to March 2023. It also sets out the average specified rate to be applied to any over/under recoveries on the correction factor amount. These rates are based on the arithmetic mean of the daily base rates of Danske Bank Ltd. As the figure shown in 2022/23 represents the average rate for 2023/24, this figure has been estimated and is therefore subject to change.
Additional documentation submitted.
No comment required.

2.4.2 RP6 Transmission variance analysis

Please explain the variations between determined costs/volumes and outturn. Please also explain why costs/volumes have been incurred and any movements between different time periods. A full and frank commentary should reduce the number of follow up questions and time spent by both the Authority (UR) and Licensee staff. This explanation should include commentary on each of the paragraph headings in 'column C' of the 'Financial Data' RIGs and the breakdown of each of these as appropriate.
3.4 Maximum regulated Transmission revenue for the regulatory reporting year – The value for the BD_t term (which represents uncollected revenue) is nil for the period October 2017 to March 2023. **4.17 Qualifying capex expenditure amount** – This represents capital expenditure costs (direct and indirect) allocated to the Transmission, Renewables and 5-year Transmission RABs. Transmission capex additions for the period October 2017 to March 2023 is **£68.838m** and includes **£4.843m** of RP5 carry over expenditure. An analysis of direct Transmission capex, from October 2017 to March 2023, is set out in the 'Reporting' worksheet within the RP6 Network Investment RIGs with a detailed breakdown of the RP5 carry over spend shown in the 'RP5 carryover works' worksheet. Capex allocated to the Renewables RAB for the period October 2017 to March 2023 is **£54.448m** (nominal prices) and comprises expenditure on the following D5 Projects: a) Coolkeeragh / Magherafelt pre-construction **£3.871m** b) Coolkeeragh / Magherafelt construction **£36.373m** c) [redacted] d) Ballylumford Eden pre-construction **£1.200m** e) Ballylumford Eden construction **£5.603m**

f) Omagh Tamnamore 3rd Circuit **£0.311m**

g) North South Interconnector pre-construction **£0.902m**

h) Ballylumford 110 kV switchgear pre-construction **£0.379m**

i) Castlereagh Knock construction **£0.863m**

j) Airport Road pre-construction **£0.090**

k) Omagh – Dromore pre-construction **£0.733m**

l) Omagh – Dromore construction **£1.598m**

m) Additional Shunt Reactors construction **£1.539m**

n) Transmission PQ monitoring **£0.195m**

o) Coolkeeragh – Magherafelt protection scheme **£0.036m**

a) Coolkeeragh / Magherafelt pre-construction – Pre-construction costs for the Coolkeeragh to Magherafelt 275kV Conductor Asset Replacement (phase 1) of **£0.564m** (15/16 prices) was approved on 25 March 2015. An additional pre-construction allowance (phase 2) of £3.627m (18/19 prices) or **£3.308m** (2015/16 prices) was granted on the 5 February 2019 giving a total pre-construction allowance of £3.872m (15/16 prices) [£0.564m +£3.308m].

Total RP5 spend was £0.438m (£0.425m 15/16 prices) with spend for the period October 2017 to March 2023 of **£3.871m** (£3.461m 15/16 prices). This gives a total spend of £4.309m [£0.438m + £3.871m] (nominal prices) or £3.886m (15/16 prices) [£0.425m + £3.461m].

Overall, there is an allowance of £3.872m (15/16 prices) against which £3.886m (15/16 prices) has been incurred.

b) Coolkeeragh / Magherafelt construction – Construction costs for the 275kV overhead line between Coolkeeragh PS - Magherafelt 275/110kV substation of £41.733m (2020/21 prices) or **£36.798m** (2015/16 prices) was approved on 17 December 2020. Expenditure for the RP6 period to March 2023 was **£36.373m** in nominal prices (£28.665m in 15/16 prices).

c) [redacted]

[redacted]

d) **Ballylumford Eden pre-construction** – Pre-construction costs of £1.390m (2018/19 prices) or **£1.268m** (2015/16 prices) was approved on 28 January 2020. Actual spend for the RP6 period to March 2023 was **£1.200m** (nominal prices) or £1.005m (2015/16 prices).

e) **Ballylumford Eden construction** – Construction costs of £15.650m (2020/21 prices) or **£13.799m** (2015/16 prices) was approved on 16 December 2021. Actual spend for the RP6 period to March 2023 was **£5.603m** (nominal prices) or £4.092m (2015/16 prices).

f) **Omagh Tamnamore 3rd Circuit** – Construction costs for the Omagh to Tamnamore 3rd Circuit - **£21.865m** (15/16 prices) were approved by the UR on 23 October 2015. Total spend during RP5 was £21.196m (£20.747m in 15/16 prices) and spend for the period October 2017 to March 2023 is **£0.311m** (£0.294m in 15/16 prices). This equates to £21.508m in nominal prices (£21.041m in 15/16 prices).

g) **North South Interconnector pre-construction** – Pre-construction expenditure of £2.874m (2020/21 prices) or **£2.534m** (2015/16 prices) was approved by the UR on 2 April 2021. Costs of £1.429m (nominal prices) or £1.248m (2015/16 prices) in relation to the North South Interconnector have been incurred to date. £0.527m during RP5 and **£0.902m** for the period October 2017 to March 2023.

h) **Ballylumford 110 kV switchgear pre-construction** – Approval of **£0.620m** (15/16 prices) was granted on 7 September 2018 for pre-construction costs in respect of Ballylumford 110kV switchgear replacement. Actual spend to March 2023 was **£0.379m** (nominal prices) or £0.321m in 2015/16 prices.

i) **Castlereagh Knock construction** – Approval of £1.018m (2019/20 prices) or **£0.910m** (2015/16 prices) for construction spend on the Castlereagh Main to Knock Main 110kV circuits was granted on 23 July 2020. Actual spend to March 2023 was **£0.863m** (nominal prices) or £0.727m (2015/16 prices).

j) **Airport Road pre-construction** – Pre-Construction costs in relation to the Airport Road 110kv/33kv substation project of £0.631m (nominal prices), or

£0.563m in 2015/16 prices, was approved on 7 August 2019. Expenditure of **£0.090m** (nominal prices) or £0.075m (2015/16 prices was incurred to March 2023.

k) **Omagh – Dromore pre-construction** – Pre-construction costs in relation to the Omagh Main to Dromore 110kv overhead line uprating project of £0.924m (2019/20 prices) or **£0.826m** (2015/16 prices) was approved on 14 April 2021. Expenditure of **£0.733m** (nominal prices) or £0.554m (2015/16 prices) was incurred in the RP6 period to March 2023.

l) **Omagh – Dromore construction** – Construction costs in relation to the Omagh Main to Dromore 110kv overhead line uprating project of £5.330m (2021/22 prices) or **£4.433m** (2015/16 prices) was approved on 24 September 2022. Expenditure of **£1.598m** (nominal prices) or £1.164m (2015/16 prices) was incurred in the RP6 period to March 2023.

m) **Additional Shunt Reactors** – Construction costs in relation to the installation of fixed shunt reactors at Tamnamore Main and Tandragee Main of £2.139m (2019/20 prices) or **£1.912m** (2015/16 prices) was approved on 25 February 2021. Expenditure of **£1.539m** (nominal prices) or £1.169m (2015/16 prices) was incurred in the RP6 period to March 2023.

n) **Transmission PQ Monitoring** – Construction costs in relation to Transmission Power Quality Monitoring of £0.797m (2020/21 prices) or **£0.703m** (2015/16 prices) was approved on 1 October 2021. Expenditure of **£0.195m** (nominal prices) or £0.142m (2015/16 prices) was incurred in the RP6 period to March 2023.

o) **Coolkeeragh – Magherafelt protection scheme** – Construction costs of £0.258m (2020/21 prices) or **£0.227m** (2015/16 prices) was approved on 6 October 2021. Expenditure of **£0.036m** (nominal prices) or £0.026m (2015/16 prices) was incurred in the RP6 period to March 2023.

Capex in the Transmission 5-year RAB of **£3.791m** comprises non-network IT spend of £2.339m and tree cutting costs of £1.451m.

4.19 & 4.23 Demonstrably inefficient qualifying capex expenditure – This is zero as no capex expenditure has been deemed demonstrably inefficient or wasteful for the period October 2017 to March 2023.

4.21 Pass through capex expenditure amount – This represents the Net Connection amount (capex less contributions) of **£2.042m** associated with the construction of clusters. These amounts are included within the Renewables RAB.

Use of shared asset charge – This represents the allowance of **£3.225m** (21/22 prices), granted by the UR in December 2021, in relation to the Agivey Cluster.

4.28 Capex disposal amount – This is zero as there were no Transmission capex disposals during the period

4.33 Additional allowed capex – This sets out the phasing of additional capital expenditure allowances from October 2017 to March 2023 which have been approved by the UR. These additional allowances amount to **£60.467m** in 2015/16 prices (£77.080m in nominal prices). Actual costs associated with these are detailed in Section 4.17. These allowances relate to:

a) Coolkeeragh / Magherafelt Pre-construction (phase 1) **£0.139m** (£0.564m approval less RP5 spend of £0.425m)

b) Coolkeeragh / Magherafelt Pre-construction (phase 2) **£3.308m**

c) Coolkeeragh / Magherafelt Construction **£36.798m**

d) [redacted]

e) Ballylumford / Eden Pre-construction **£1.268m**

f) Ballylumford / Eden Construction **£6.808m** (£6.991approval for 2023/24 to total £13.799m)

g) Omagh Tamnamore 3rd Circuit **£1.118m**. (£21.865m approval less RP5 spend of £20.747m)

h) NSI Pre-construction **£2.534m**

i) Ballylumford 110 kV switchgear Pre-construction **£0.620m**

j) Castlereagh Knock Construction **£0.910m**

k) Airport Road Pre-construction **£0.563m**

l) Omagh / Dromore Pre-construction **£0.826m**

m) Omagh / Dromore Construction **£2.070m** (£2.363m approved for 2023/24 to total £4.433m)

n) Additional Shunt Reactors **£1.912m**

o) Transmission Power Quality Monitoring Construction **£0.703m**

p) Coolkeeragh & Magherafelt Substation Protection Scheme **£0.227m**

4.36 Allowed capex amount – This relates to additional capex allowances under the capex change of law term $ACCOL\_X_t$. This is zero as no amounts have been approved under this term.

6.3 Qualifying opex expenditure amount – The amount is **£44.262m** for the period to March 2023 comprising Indirect & IMF expenditure and business rates less O&M, tort and other miscellaneous income.

6.5 & 6.9 Demonstrably inefficient qualifying opex expenditure – This is zero as no opex expenditure has been deemed demonstrably inefficient or wasteful for the period October 2017 to March 2023.

6.7 Pass through opex expenditure – The amount of **£1.961m** includes the Transmission allocation (20%) of UR licence fee costs and net connections operating costs associated with clusters.

6.15 Allowed opex other amount – These relates to additional RP6 approvals by the UR. The approval for the period October 2017 to March 2018 was in relation to **£13k** of apprenticeship levy costs approved by the regulator on the 13 June 2018 under the change of law (COL_t) term.

The amounts included for the period April 2018 to March 2019 relate to **£101k** of injurious affection costs approved by the regulator on the 2 August 2019 under the IA_t term and **£16k** of apprenticeship levy costs approved by the regulator on the 30 June 2020 under the change of law (COL_t) term.

The amounts included for the period April 2019 to March 2020 relate to **£316k** of injurious affection costs approved by the regulator on the 8 December 2020 under the

IAt term and **£16k** of apprenticeship levy costs approved by the regulator on the 26 October 2020 under the change of law (COL_t) term. The amounts included for the period April 2020 to March 2021 relate to **£80k** of injurious affection costs approved by the regulator on the 5 November 2021 under the IA_t term and **£18k** of apprenticeship levy costs approved by the regulator on the 14 March 2022 under the change of law (COL_t) term. The amounts included for the period April 2021 to March 2022 relate to **£267k** of injurious affection costs approved by the regulator on the 22 December 2022 under the IA_t term and **£25k** of apprenticeship levy costs approved by the regulator on 24 October 2022 the under the change of law (COL_t) term. **11 Correction factor amount** – this shows actual Transmission service charge revenue received from the SONI business for the period October 2017 to March 2023. It also sets out the average specified rate to be applied to any over/under recoveries on the correction factor amount. The rates are based on the arithmetic mean of the daily base rates of Danske Bank Ltd. As the figure shown in 2022/23 represents the average rate for 2023/24, this figure has been estimated and is therefore subject to change.
Additional documentation submitted.
No comment required.

2.5 Rec 1 – OPEX

The 'Rec 1 - OPEX' worksheet – reconciles the qualifying operational expenditure shown under Annex 2 to the operating cost figures for Transmission and Distribution shown in the income statement of the regulatory accounts.

There are a number of reconciling items and the Licensee should insert any explanatory notes which explain the reconciling items. The Licensee shall continue this approach for any new reconciling items.
Qualifying opex has been reconciled to the Regulatory accounts for the periods 2017/18 to 2022/23. The 'Rec 4 (17-18)' worksheet provides a reconciliation of the two six month periods (April to September 17) and (October 17 to March 18) to the 2017/18 regulatory accounts. There are differences between allocations to T&D due to the timing of the publication of the Regulatory accounts and the finalisation of RIGs data. As agreed with the Utility Regulator, where an item of opex cannot be allocated directly to either Transmission or Distribution, previous years FD RIGs allocations are used as the basis of these splits. The 2017/18 and 2018/19 T&D splits in the regulatory accounts were based on 2016/17 RIGs allocations, the 2019/20 T&D splits were based on 2018/19 RIGs allocations, the 2020/21 T&D splits were based on 2019/20 RIGs allocations and the 2021/22 T&D splits were based on 2020/21 RIGs allocations. Also, as agreed with the regulator, we have used the 2021/22 RIGs allocations for the preparation of Regulatory accounts for 2022/23 and will continue to use prior year RIGs allocations for the remainder of the RP6 price control. If however a discovery is made when completing the 2022/23 Financial Data RIGs, or any subsequent years of the RP6 price control period, that there is a difference in the allocation of opex between Transmission and Distribution which is greater than 1% of the combined Transmission and Distribution turnover, a written explanation will be provided, which will provide clarity on how the issue has arisen and will be duly signed off by an appropriate person in NIE Networks along with the Financial Data RIGs submission. The following items are excluded when calculating qualifying opex but as they form part of the total operating cost figure in the regulatory accounts they need to be included in the reconciliation:

(a) **Connection expenditure** – This relates to adjustments to T&D opex to exclude connection costs which do not form part of the RP6 price control.

[redacted]

[redacted]

[redacted]

[redacted]

(e) Depreciation – This is ignored when calculating qualifying opex.

(f) PSO costs – Costs relating to NIE Land Bank, the Energy Efficiency Program (NISEP) and payments to / from Power NI PPB are ignored when calculating qualifying opex.

(g) Provision release – This relates to the release of provisions, which are ignored when calculating qualifying opex.

(h) Cost of Disposal – This relates to the original cost incurred in the purchase of Stewart Street and is ignored when calculating qualifying opex.

(i) Lease Liabilities – From the regulatory reporting year 2019/20, NIE Networks has adopted the international accounting standard (IFRS 16) which is in relation to leases. This standard was effective for the first time for the regulatory year beginning on 1 April 2019 and replaces IAS 17, 'Leases', and related interpretations. Adopting this new standard meant that the company's financial liabilities associated with future lease commitments were recognised on the balance sheet at 1 April 2019.

Lease payments relating to fleet and property costs, which would have previously been accounted for in the P&L account, need to be included within qualifying opex. As these amounts were not included within opex in the regulatory accounts but form part of the reconciliation these items need to be included. Lease interest and lease liability payments included in the cash-flow statement of the regulatory accounts from April 2019 to March 2023 are shown below.

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Lease interest				
Transmission	-0.022	-0.027	-0.022	-0.036
Distribution	-0.303	-0.318	-0.261	-0.371
Lease Liability				
Transmission	-0.207	-0.237	-0.239	-0.262
Distribution	-2.837	-2.746	-2.786	-2.714

Additional documentation submitted.
No comment required.

2.6 Rec 2 – CAPEX

The 'Rec 2 - CAPEX' worksheet – reconciles the qualifying capital expenditure shown under Annex 2 to the capital expenditure additions included in note 4 and note 6 of the regulatory accounts

There are a number of reconciling items and the Licensee should insert any explanatory notes which explain the reconciling items. The Licensee shall continue this approach for any new reconciling items.
Qualifying capex has been reconciled to the Regulatory accounts for the periods 2017/18 to 2022/23. The 'Rec 4 (17-18)' worksheet provides a reconciliation of the two six month periods (April to September 17) and (October 17 to March 18) to the 2017/18 regulatory accounts. There are differences between allocations to T&D due to the timing of the publication of the Regulatory accounts and the finalisation of RIGs data. As agreed with the Utility Regulator, where an item of capex cannot be allocated directly to either Transmission or Distribution, previous years FD RIGs allocations are used as the basis of these splits. The 2017/18 and 2018/19 T&D splits in the regulatory accounts were based on 2016/17 RIGs allocations, the 2019/20 T&D splits were based on 2018/19 RIGs allocations, the 2020/21 T&D splits were based on 2019/20 RIGs allocations and the 2021/22 T&D splits were based on 2020/21 RIGs allocations Also, as agreed with the regulator, we have used the 2021/22 RIGs allocations for the preparation of Regulatory accounts for 2022/23 and will continue to use prior year RIGs allocations for the remainder of the RP6 price control. If however a discovery is made when completing the 2022/23 Financial Data RIGs, or any subsequent years of the RP6 price control period, that there is a difference in the allocation of capex between Transmission and Distribution which is greater than 1% of the combined Transmission and Distribution turnover, a written explanation will be provided, which will provide clarity on how the issue has arisen and will be duly signed off by an appropriate person in NIE Networks along with the Financial Data RIGs submission. The following items are excluded when calculating qualifying capex but as they form part of the total capital expenditure figure in the regulatory accounts they need to be included in the reconciliation:

(a) **Customer Contributions – Approved Generation Cluster Infrastructure –** The Capex connections amount - CC_X_t figure shown in row 7 is net of contributions relating to clusters. These contributions have been added back in row 11 to reconcile to the gross capex figures in the regulatory accounts.

(b) **Connections expenditure: Various other Connections categories** – These are excluded from qualifying capex as they do not form part of the RP6 Price Control.

(c) **Legacy RP5 Dt Items** – These relate to RP5 Legacy Dt adjustments and are excluded as they do not form part of the RP6 price control.

[redacted]

(e) **Creosote Poles Provision** – A provision was created in 2022/23 with respect to future costs associated with the disposal of Creosote treated wood poles. This provision equated to £30.868m, with £7.152m allocated to Transmission and £23.715m allocated to Distribution based on RAB percentage splits. As this is a provision it is excluded when calculating qualifying capex.

[redacted]

(g) **D5 Mechanism Costs** – This relates to D5 pre-construction costs that are recorded as operating costs in the regulatory accounts but from a regulatory

perspective are recovered as capex in the Renewables RAB. As these costs have been included in the qualifying capex amount but are classified as opex in the regulatory accounts, they have been deducted in the reconciliation. **(h) Customer Contributions - Housing sites with 12 or more Domestic Premises** – The Capex connections amount - CC_X_t figure shown in row 28 is net of contributions relating to 12 or more domestic premises. These contributions have been added back in row 31 to reconcile to the gross capex figures in the regulatory accounts. **(i) Contestability IT Costs** – This relates to the IT system costs incurred in the introduction of contestability into the Connections market. These costs are recorded as operating costs in the regulatory accounts but from a regulatory perspective are recovered through the Distribution 5-year RAB. As these costs have been included in the qualifying capex amount but are classified as opex in the accounts, they have been deducted in the reconciliation.
Additional documentation submitted.
No comment required.

2.7 Rec 3 – INCOME

The 'Rec 3 INCOME' worksheet – reconciles the 'Revenue' figures for Transmission and Distribution shown in the income statement of the regulatory accounts to the various income lines in the 'Financial Data' worksheet.

There are a number of reconciling items and the Licensee should insert any explanatory notes which explain the reconciling items. The Licensee shall continue this approach for any new reconciling items.
Income has been reconciled to the Regulatory accounts for the periods 2017/18 to 2022/23. The 'Rec 4 (17-18)' worksheet provides a reconciliation of the two six month periods (April to September 17) and (October 17 to March 18) to the 2017/18 regulatory accounts. As agreed with the Utility Regulator, where an item of income cannot be allocated directly to either Transmission or Distribution, previous years FD RIGs allocations are used as the basis of these splits. The 2017/18 and 2018/19 T&D splits in the regulatory accounts were based on 2016/17 RIGs allocations, the 2019/20 T&D splits were based on 2018/19 RIGs allocations, the 2020/21 T&D splits were based on 2019/20 RIGs allocations and the 2021/22 T&D splits were based on 2020/21 RIGs allocations Also, as agreed with the regulator, we have used the 2021/22 RIGs allocations for the preparation of Regulatory accounts for 2022/23 and will continue to use prior year RIGs allocations for the remainder of the RP6 price control. If however a discovery is made when completing the 2022/23 Financial Data RIGs, or any subsequent years of the RP6 price control period, that there is a difference in the allocation of income between Transmission and Distribution which is greater than 1% of the combined Transmission and Distribution turnover, a written explanation will be provided, which will provide clarity on how the issue has arisen and will be duly signed off by an appropriate person in NIE Networks along with the Financial Data RIGs submission. As the following items do not form part of qualifying amounts but are part of income in the regulatory accounts they need to be included in the reconciliation: (a) **Amortisation of connection contributions** – This is excluded as it does not form part of the RP6 price control.

(b) PSO Income – Tariff income, Net Landbank subsidy, income from Power NI (PPB), and Income from Power NI (Supply) are excluded as they do not form part of the RP6 price control. **(c) Connections Income – Various other connection categories and alterations** – These are excluded as they do not form part of the RP6 price control.
Additional documentation submitted.
No comment required.

2.8 Rec 4 (17-18)

The 'Rec 4 (17-18)' worksheet – reconciles the six-month period April to September 2017 and the six-month period October 17 to March 18 to the 2017/18 regulatory accounts.

There are a number of reconciling items and the Licensee should insert any explanatory notes which explain the reconciling items. The Licensee shall continue this approach for any new reconciling items.
As the first six-month period (April to September 2017) of the NIE Networks 2017/18 regulatory reporting year (April 2017 to March 2018) fell into the RP5 price control period, this information was reported in the RP5 RIGs. The last six-month period (October 2017 to March 2018) forms part of the RP6 price control and is therefore included in the RP6 RIGs. A reconciliation worksheet has been included which reconciles figures for both six-month periods to the figures contained in the 2017/18 regulatory accounts. This reconciliation is shown in the worksheet 'Rec 4 (17-18)'. This worksheet sets out a reconciliation of the opex, capex, income and DB pension charge figures for the six-month period April to September 17 (shown in the RP5 RIGs) and the six-month figures for the period October 17 to March 18 (included in the RP6 RIGs) to the 2017/18 regulatory accounts.
Additional documentation submitted.
No comment required.

2.9 Analysis 1 – DB PENSION CHARGE

The 'Analysis 1 - DB PENSION CHARGE' worksheet – This worksheet provides an analysis of the 'Defined Benefit Pensions charge' for Transmission and Distribution as shown within the cashflow statement of the regulatory accounts.

Explanatory notes which explain the analysis should be provided within this document.
An analysis is shown of the DB pension charge less contributions paid figures within the cash-flow statement of the Regulatory accounts for the periods 2017/18 to 2022/23. The 'Rec 4 (17-18)' worksheet provides a reconciliation of the two six month periods (April to September 17) and (October 17 to March 18) to the 2017/18 regulatory accounts. The allocation of Penson Deficit costs to Incremental Deficit has been updated in the regulatory reporting period 2022/23 to (17%) in line with March 2022 PDAM report. The regulatory fraction which is applied to the Regulated and Unregulated Deficits remains unchanged at 102.96%. Explanatory items (Transmission and Distribution) a) **Pension deficit repair payments** – The cash cost paid by the company to reduce the shortfall in the pension scheme. The deficit payment amounts are agreed at each triennial valuation. [redacted] [redacted] d) **Other Pensions included in Opex** – This includes the administration costs of running the pension scheme; the Pension Protection Fund levy paid to government; and the current service cost charge for active members of the final salary pension scheme. This is calculated based on IAS19 and the assumptions underpinning this are revised each year. e) **Other Pension ongoing payments** – The cash costs paid to the pension scheme for the ongoing service of the remaining active participants in the scheme i.e. those employees who still work for the Company. This is updated with each triennial valuation.

f) **Unregulated pension deficit & Incremental deficit** – Deficit payments relating to unregulated pension schemes and incremental deficits which are incurred after 31 March 2012.
Additional documentation submitted.
No comment required.