Utility Regulator
ELECTRICITY GAS WATER

Financial Data RIGs Commentary Template



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.

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2. Commentary tables for the Reporting Workbook

2.1 Introduction

2.1.1 For the Financial Data Reporting 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_18 Financial Data RIGs Reporting Workbook v2.0' which shows Financial Data RIGs for NIE Networks for the five and a half year period for RP5 (April 2012 – September 2017). NIE Networks recognises that both the UR and NIE Networks will continue to learn through the development of RIGs. Any figures quoted 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.
Submission date and version number have been included.

2.3 The Change Log worksheet

2.3.1 All

This worksheet records any changes to the workbook
• Descriptions in Column H of the Financial Data worksheet (Rows 64, 146, 194, 195, 206, 366, 367 and 402) have been updated to reflect the correct terminology. • Rows have been inserted at the bottom of Rec1 - Opex, Rec2 - Capex, Rec3 - Income and Analysis 1 - DB Pension Charge to show figures that were in the Regulatory Accounts for each year of RP5. • Additional rows have been included in the Financial Data Worksheet (Rows 327 to 329) to show the operating costs for D5 projects. Row 12 has been inserted in Rec1 - Opex and in row 16 of Rec2 - Capex as these items need to be included in the reconciliations. • Additional row has been included the Financial Data Worksheet (Row 333) to report Transmission tree cutting within 5 year Transmission RAB. • An additional row (row 30) has been inserted in Rec 3 – Income to show the net Landbank subsidy amount.

2.4 Financial Data RIGS worksheet

2.4.1 RP5 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 (uncollected revenue) is nil for each year of RP5. *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. The Metering RAB includes both the direct capex costs associated with the installation, certification and recertification of meters along with overhead costs. Capex in the 5 year RAB comprises tree cutting costs, non network IT spend and IT project expenditure associated with the introduction of contestability in the electricity network connections business. *4.19 + 4.25 Demonstrably inefficient qualifying capex expenditure* – No capex expenditure has been deemed demonstrably inefficient or wasteful for each year of RP5. *4.21 Pass through capex expenditure amount* – This represents the Net Connections amount (capex less contributions) associated with industrial, domestic and small and large scale generation connections. There is a large increase towards the end of RP5 in connection activities due to small and large scale generation connections. *4.23 Capex legacy Dt amount* – This relates to project approvals carried over from RP4. It includes the residual allowance for the Enduring Solution IT system that was introduced to support competition in the retail market and became operational in May 2012. NIE Networks total allowance for this project was £30.099m with the capex allowance being £29.521m. Most of the development on the project was completed towards the end of RP4 with capex expenditure incurred of £22.798m, leaving an allowance of £6.723m being carried forward and utilised in 2012/13. The 33kV reinforcement project related to reinforcement of the 33kV network following connections of small-scale generators. An allowance of up to £2.3m (13/14 prices) was approved on 21 October 2013 with £1.849m of costs being incurred during RP5. *4.30 Capex disposal amount* – This relates to the proceeds of the disposal of any relevant asset (including land, buildings, plant, equipment but not comprising Land

Bank premises or scrap) minus any costs of such disposal reasonably incurred. Asset disposals are deducted from the RAB five years after disposal occurs. There were asset disposals in 2012/13 of £0.032m and £0.049m in 2014/15 relating to the sale of land at substation sites.

4.42 Metering unit category – Sets out the actual meter volumes per metering category.

4.38 First metering fixed allowance – This represents the allowances as per Table 7 of Annex 2 of the RP5 Distribution Licence. The RPI applied line reflects these allowances adjusted for inflation. The figure for the six month period Apr to Sept 17 has been increased by £1.507m to reflect the adjustment as per para 4.6 (c) Annex 2 of the RP6 Distribution Licence, which represents the opening adjustment value for metering installed in RP5 under the meter replacement for theft programme.

4.40 Second metering fixed allowance – This represents the allowances as per Table 8 of Annex 2 of the RP5 Distribution Licence. The RPI applied line reflects these allowances adjusted for inflation.

4.42 Meter allowance unit cost – Sets out the metering allowance unit cost for each metering category as per Table 9 of Annex 2 of the RP5 Distribution Licence.

6.3 Qualifying opex expenditure amount – This comprises Indirect & IMF expenditure. Enduring Solution IT costs, Market Operations costs, severe weather events, opex tree cutting costs and business rates less O&M, tort and miscellaneous income. The increase in business rates from 1 April 2015 was the result of a revaluation of all non domestic properties in Northern Ireland. The result of that revaluation was an average increase of over £2m per annum for the remainder of RP5. Rates have been allocated between Distribution and Transmission based on RAB splits.

6.5 + 6.10 Demonstrably inefficient or wasteful expenditure – These figures are nil as no opex expenditure has been deemed to be demonstrably inefficient or wasteful for each year of RP5.

6.7 Pass through opex expenditure – This includes the Distribution allocation (80%) of UR licence fee costs and connections opex costs in relation to the opex element of costs for customer connections. A change in the accounting estimate in 2016/17

meant that the income associated with these costs could also be recognised in the P&L account. *6.9 Opex legacy Dt amount* – this includes opex items where separate allowances were granted in RP4 and includes the following costs: (a) replacement of the Network Management System £3.6m; (b) SMART Grid trial project costs of £0.2m aimed at testing consumer habits in relation to the use of smart meters; and (c) Market opening transitional costs of £1.5m incurred in the implementation of the Enduring solution system. *6.17 Allowed opex other amount* – This relates to adjustments to allowances under the Injurious Affection term (IA) and the Change of Law term (CoL) in RP5 and includes the following: (a) legal costs in relation to injurious affection claims of £0.376m; (b) allowances in relation to adjustments for apprenticeship levy costs of £0.079m and the abolition of contracting out for salary related schemes of £0.466m; and (c) a requested amount of £0.783m with regard to the inclusion of overtime in holiday pay. *10.1 Revenue protection service revenue* – Relates to revenue 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 the actual regulated Distribution income received for the RP5 period. It also sets out the average specified rate to be applied to any over/under recoveries on the connection factor amount. These rates are based on the arithmetic mean of the daily base rates of Danske Bank Ltd.
Additional documentation submitted.

No comment required.

2.4.2 RP5 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 BDt term (Uncollected Revenue) is nil for each year of RP5. *4.17 Qualifying capex expenditure amount* – This represents actual capital expenditure costs (direct and indirect) allocated to the Transmission, Renewable and 5 year Transmission RABs. Renewables capex of £22.160m comprises expenditure on the following D5 projects: a) construction costs for the Omagh to Tamnamore 3rd Circuit - £21.865m (15/16 prices) was approved on 23 October 2015 with spend to 30 September 2017 of £21.196m; b) pre-construction costs for the Coolkeeragh to Magherafelt 275kV Conductor Asset Replacement - £0.560m was approved on 25 March 2015 with spend to 30 September 2017 of £0.438; and c) pre-construction work on the North/South Interconnector - £2.363m has been requested with spend to 30 September 2017 of £0.527m.

Capex in the 5 year RAB comprises non network IT spend and tree cutting costs.

4.19 + 4.25 - Demonstrably inefficient qualifying capex expenditure – These figures are nil as no capex expenditure has been deemed demonstrably inefficient or wasteful for each year of RP5.

4.21 Pass through capex expenditure amount – This represents the Net Connection amount (capex less contributions) associated with the construction of clusters at Gort, Rasharkin (formerly mid Antrim), Tremoge and Curraghmulkin (formerly Drumquin). The Renewables RAB is adjusted for these amounts.

4.23 Capex legacy Dt amount – This relates to projects for which separate allowances were granted in RP4 namely on the reinforcement of the network through 'Medium Term Plan' £30.791m as well as the net connections amount £(6.848m) associated with approved generation cluster infrastructure.

4.30 Capex disposal amount – All capex disposal adjustments in RP5 were made to the Distribution RAB. Therefore no figures are reported here.

6.3 Qualifying opex expenditure amount – This comprises Indirect & IMF expenditure and business rates less O&M, tort and miscellaneous income. The increase in business rates from 1 April 2015 was the result of a revaluation of all non domestic properties in Northern Ireland. The result of that revaluation was an average increase of over £2m per annum for the remainder of RP5. Rates have been allocated between Distribution and Transmission based on RAB splits.

6.5 + 6.11 Demonstrably inefficient or wasteful expenditure – These figures are nil as no opex expenditure has been deemed demonstrably inefficient or wasteful for each year of RP5.

6.7 Pass through opex expenditure – This includes the Transmission allocation (20%) of UR licence fee costs. It also includes connections costs associated with pre-construction work for Curraghmulkin (Drumquin) and Garvagh.

6.9 Opex legacy Dt amount – This relates to items where separate allowances were given in RP4. It includes expenditure associated with the North-South Interconnector project between 2012/13 – 2014/15 and costs in relation to the transfer of the SONI

pension deficit to NIE Networks upon the disposal of SONI. *6.17 Allowed opex other amount* – This relates to adjustments for allowances under the Change of Law term (CoL) in RP5 and includes the following: (a) a reduction of (£1.174m) for planning staff that transferred from NIE Networks to SONI in April 2014; (b) allowances in relation to adjustments for apprenticeship levy costs of £0.010m and the abolition of contracting out for salary related schemes of £0.056m; and (c) a requested amount of £0.095m with regard to the inclusion of overtime in holiday pay. *11 Correction factor amount* – Shows the actual regulated income received from the SONI business for the RP5 period. 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.
Additional documentation submitted.
No comment required.

2.5 Rec 1 – Opex

The 'Rec 1 - Opex' worksheet – reconciles qualifying operational expenditure to the regulatory accounts.

There are a number of reconciling items and the Licencee 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 period 2012/13 to 2016/17 at a total Transmission and Distribution (T&D) level. 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. A reconciliation has been

undertaken to the financial RIGs source data for T&D for the period April to September 2017. Information for the six month period Apr to Sept 17 and data for the six month period Oct 17 to March 18 will be reconciled to the 2017/18 Regulatory accounts when RIGs data for the Oct 17 to March 18 period becomes available. <u>Reconciling items (Transmission and Distribution)</u> *Costs of the investigation (RP5 price control referral to the Competition Commission)* – As a separate allowance was given for these costs they are not included within the qualifying opex expenditure amount and therefore need to be added on in the reconciliation. *Legacy Dt items: SONI pension deficit repair* – An allowance relating to the transfer of the SONI pension deficit to NIE Networks upon the disposal of SONI is included in the opex legacy Dt term. As this is an allowance and is not in the operating costs it has been deducted in the reconciliation. *Depreciation* – As this is ignored when calculating qualifying opex but forms part of the operating cost figure in the Regulatory accounts, it needs to be added on in the reconciliation. *Related party margin* – Any profits on transactions from an affiliate company are deducted from the qualifying opex amount. As these amounts are not included within NIE Networks accounts, they need to be added back in the reconciliation. *PSO costs relating to NIE Land Bank, Energy Efficiency Program (NISEP), Payment to Power NI (PPB) and, Payment to Power NI* – These costs are ignored when calculating qualifying opex but form part of the Regulatory accounts so need to be added on in the reconciliation. *Connection expenditure: Alterations (fully or partly recoverable)* – As these amounts are recovered directly from customers they are not included within qualifying opex and are therefore added on in the reconciliation.
Additional documentation submitted

No comment required.

2.6 Rec 2 – Capex

The 'Rec 2 - Capex' worksheet – reconciles qualifying capital expenditure to the regulatory accounts

There are a number of reconciling items and the Licencee 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 period 2012/13 to 2016/17 at a total Transmission and Distribution (T&D) level. 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. A reconciliation has been undertaken to the financial RIGs source data for T&D for the period April to September 2017. Information for the six month period Apr to Sept 17 and data for the six month period Oct 17 to March 18 will be reconciled to the 2017/18 Regulatory accounts when RIGs data for the Oct 17 to March 18 period becomes available.

Reconciling items (Transmission and Distribution)

Connection expenditure / Income: Unapproved cluster costs ([redacted]) – As expenditure on this cluster was recovered directly from customers, the costs and contributions are excluded from qualifying capex. Costs are added back and contributions are deducted in the reconciliation.

Customer Contributions – The qualifying capex amount in the reconciliation is net of customer contributions. As the figures in the accounts relate to gross capex contributions need to be added back in the reconciliation.

Related party margin – Any profits on transactions from an affiliate company are deducted from the qualifying capex amount. As these amounts are not included within NIE Networks accounts, they need to be added back in the reconciliation.

Connection expenditure - Disallowed - [redacted] – This was a

project that finished at the end of the RP4 period. As residual costs incurred in RP5 were disallowed, these costs are added back in the reconciliation. *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 through the Renewables 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. *Capitalised Interest* – This expenditure is not included within qualifying capex but as it is included within capex in the accounts needs to be added back in the reconciliation. *Connection expenditure / income Electric Cars Charging Points* – As this project was funded outside the price control, any costs and contributions relating to it have been excluded from qualifying capex. Costs are added back and contributions are deducted in the reconciliation. Contestability IT Costs – This relates to the IT system costs incurred in the introduction of contestability into the Connections market. These costs were 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 provided
No comment required.

2.7 Rec 3 – Income

The ‘Rec 3 Income’ worksheet – reconciles the ‘Revenue’ from the regulatory accounts to the various income lines in the ‘Financial Data’ worksheet.

There are a number of reconciling items and the Licencee 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 period 2012/13 to 2016/17 at a total Transmission and Distribution (T&D) level. 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. A reconciliation has been undertaken to the financial RIGs source data for T&D for the period April to September 2017. Information for the six month period Apr to Sept 17 and data for the six month period Oct 17 to March 18 will be reconciled to the 2017/18 Regulatory accounts when RIGs data for the Oct 17 to March 18 period becomes available. <u>Reconciling items (Transmission and Distribution)</u> *Amortisation of connection contributions* – As these figures do not form part of qualifying amounts but are included as income in the Regulatory accounts they have been added back in the reconciliation. Renewable Integration Development Programme (EU) – This was a project undertaken in RP4 funded in part through EU grants. This does not form part of the qualifying amounts but as it is included in income in the Regulatory accounts it has been added back in the reconciliation. PSO tariff income, Net Landbank subsidy, Income from Power NI (PPB), Income from Power NI – PSO Income from Power NI - NI 2007 and Connection income: Alterations (fully or partly recoverable) – As these do not form part of qualifying amounts but are included in income in the Regulatory accounts they have been added back in the reconciliation.
Additional documentation provided
No comment required.

2.8 Analysis 1 – Defined Benefit Pension Charge

The 'Analysis 1 DB Pension charge' worksheet – This worksheet provides an analysis of the 'DB Pensions charge'.

Explanatory notes which explain the analysis should be provided within this document.
The Defined Benefit Charge less contributions paid has been reconciled to the Regulatory accounts for the period 2012/13 to 2016/17 at a total Transmission and Distribution (T&D) level. 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. A reconciliation has been undertaken to the financial RIGs source data for T&D for the period April to September 2017. Information for the six month period Apr to Sept 17 and data for the six month period Oct 17 to March 18 will be reconciled to the 2017/18 Regulatory accounts when RIGs data for the Oct 17 to March 18 period becomes available. Explanatory items (Transmission and Distribution) *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 with each triennial valuation. *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. *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. *NIENS P&L Pension ongoing and cash contributions* – Represents the net ongoing P&L pension / cash contributions for NIE Networks Services Limited. On 1 January 2016, all assets, operations and employees of NIE Networks Services Limited

transferred to NIE Networks and NIE Networks Services Limited ceased operational activity. *Unregulated pension deficit & Incremental deficit* – Deficit payments relating to Unregulated pension schemes and incremental deficits which are incurred after 31 March 2012.
Additional documentation provided
No comment required.