# UK Power Networks

# Business plan (2015 to 2023)

## Annex 21: Assurance of the Overall Plan

March 2014

*A reliable... an innovative... and the lowest price electricity distribution group.*

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**UK Power Networks**
Delivering your electricity

# Contents

*This annex has been updated to reflect UK Power Networks' March 2014 business plan. We have a tracked change version for the purpose of informing Ofgem of all revisions to the July 2013 business plan, should this be required.*

# 1 Executive summary

We have subjected our business plans to proportionate and robust internal and external assurance, challenge and verification to improve them and to ensure completeness, accuracy and appropriateness of information, data and assumptions. The significant aspects of the business plan for which external assurance or challenge were sought are:

- **PA Consulting** has provided advice, quality assurance and monitoring of the development of the Business Plan since 2011. As well as reviewing the cash-flow risk model and our indirect costs to identify opportunities for greater efficiency, based on benchmarking our business support costs against a range of other utility companies

- **Navigant** and **PwC** reviewed and provided feedback on our November and April business plan consultation documents

- **Dialogue by Design** managed and facilitated early engagement with stakeholders to help our understanding of planning assumptions and potential outputs

- **Element Energy** assisted us with economic modelling and reviewed our assumptions for economic growth in the UK economy, and other drivers for load growth including drivers for decarbonisation of the economy (e.g. electric vehicles)

- **Sinclair Knight Merz** re-assessed the reasonableness of our asset investment, Opex expenditure and outputs forecasts

- **An independent firm of chartered accountants** reviewed our financial model

- **Chiltern Power** assessed the feasibility, availability, suitability, and completeness of the smart network solutions being used within our Business Plan

- **Frontier Economics** assisted with the analytical and economic development of a totex benchmarking model

- **Oxera** and **First Economics** provided advice on the cost of capital and other financial matters (through the Energy Networks Association)

- **NERA** reviewed our internally estimated Real Price Effects (RPEs) and Total Factor Productivity (TFP) for the period 2015 to 2023 to ensure that they are economically justified and robust

- **Investment Property Databank** (**IPD**) provided cost benchmarking analysis to inform our property related expenditure forecasts and to measure the efficiency of the estate

- **ImprovIT** provided benchmarking cost analysis to inform our IT related expenditure forecasts and ensure that they are efficient

- **Turner and Townsend** assisted with the development of UK Power Networks' deliverability assessment of the capital programme across the RIIO-ED1 timeframe

- **KPMG** reviewed the business plan data templates for consistency with Ofgem requirements, completeness and accuracy to source IT systems

- Internal assurance business plan data was reviewed and signed-off by the responsible internal data owner

# 2     **Key messages**

Set out below are the key messages we have received from our assurance providers:

## 2.1    PA Consulting

**PA Consulting** has reviewed the business plan executive summary document to confirm that:

- The available data tables are supported by appropriate evidence;
- The statements made concerning performance relative to history are accurate; and
- The key messages and forecast information set out in the UK Power Networks Overall Core Narrative summary document dated March 2014 is consistent with the supporting evidence provided.

In addition, PA Consulting has throughout the preparation of the UK Power Networks' business plan, provided feedback and advice on the information contained therein.

**PA Consulting** has also confirmed that in connection with the cash-flow risk model, no technical errors were identified and the outputs of the model calculated correctly from the inputs and associated corporate assumptions, which are owned by UK Power Networks.

## 2.2    Chiltern Power

**Chiltern Power** noted that the results of their review show that many of the solutions considered by Chiltern Power are thought to be low risk and readily achievable.  For those schemes that do not score as favourably in terms of a higher risk profile with unknown components, Chiltern Power's view is that they are not infeasible but rather that deployment will require greater focus and risk management.

## 2.3    Sinclair Knight Merz

**Sinclair Knight Merz (SKM)** has provided the following feedback on the output components of the RIIO-ED1 business plan:

**Health indices**

- In 2012, SKM undertook an assessment of asset inspection procedures, and the models used to derive Health Index (HI) scores. At that time, UKPN had just transitioned the majority of their health index scoring to the Asset Risk & Prioritisation (ARP) software from older and more basic methods. SKM examined both the methodologies adopted and the comprehensiveness of supporting documentation and recommended that UKPN needed to improve the depth of documentation, particularly at a high level; we also recommended that UK Power Networks continue to improve the quality of input data and establish procedures to ensure that the models remain accurate and consistent with each other.

- We have revisited the areas where we suggested improvements, as well as reviewing the criticality calculation procedure, which is a new addition to the ARP model and commented on the validity of the model outputs and the business plan narratives. With regard to these elements of UK Power Networks' RIIO-ED1 submission procedures, our review finds the following:
  - o The documentation gaps identified in our previous review are largely covered by the new documentation and procedures produced by UK Power Networks. Any remaining gaps are very minor in nature and not a concern.
  - o Based on the documentation provided and demonstration of the criticality index (CI) scoring algorithms, the system appears to be robust and meaningful. A limited test check of the ARP

models examined key metrics and data points within the HI and CI scoring algorithms in addition to the various input and output data sources, and found no inconsistent results.

- o We were able to verify that the business planning process adopted by asset management engineers generally conformed to the procedures adopted by UK Power Networks' management. The volumes and costs proposed in the business plan narrative documents were found to be consistent with forecast data.

- In January 2014 UK power networks appointed SKM to carry out a further review of the non-load related data to be submitted in the March 2014 business plan. SKMs review concentrated on the data links between our core planning tool PIMs and the asset strategies.

**Load indices**

- Our assurance review load indices (LI) was intended to address key aspects of UK Power Networks' submission that included an analysis of load forecasting methodologies, the scenarios adopted for RIIO-ED1 capacity predictions and whether these were correctly developed into the required Ofgem LI values for the ED1 submission. Based on that review, we found the following:

   - o UK Power Networks' long term strategy for managing network capacity, maintaining a level of system risk no higher than at present, is met by the proposed Load Related Expenditure (LRE) profile. This is demonstrated by the fact that the LRE profile is expected to deliver exactly the same number of LI4 and LI5 substation sites at the start and end of ED1 for EPN, and a reduction in the number of LI4 and LI5 sites at the end of the period (as compared to the start) for SPN and LPN.

   - o UK Power Networks' LI calculations have been redefined to align with the new Ofgem requirements (provided in June 2013), and SKM's independent calculations have verified this.

   - o The unit costs adopted by UK Power Networks for ED1 utilise Ofgem DPCR5 targets which are considered appropriate for the cost forecasting process. Dialogue with UK Power Networks' Strategy & Regulation staff has confirmed that measures have been identified to improve cost efficiency over the ED1 period.

   - o Based on a sample review of load related and asset health/condition related expenditure projects a consistent approach (leveraging off common unit costs) has been taken by UK Power Networks in estimating project costs for the purpose of determining LRE.

   - o Appropriate judgments have been made to align load and non-load expenditure programs in the interest of optimising expenditure profiles and eliminating duplication.

   - o The LRE in the Network Assessment Management Plan (NAMP) is phased to deliver network capacity enhancements in line with the ED1 capacity forecast indicated in the LI tables.

   - o The review of a sample of the forecast substation capacity tables and associated LI categorisations detailed in the RDP's in comparison with the detailed LI tables (which serve as the source data for the RDPs) has confirmed that these sources of information are broadly aligned.

   - o The LI calculations for SPN and EPN take into account distributed generation that contributes to system security (in line with ENA ETR130 requirements) in determining the available firm capacity for the purposes of LI calculations. Whilst the data provided does not conclusively demonstrate the same for LPN, discussions with UK Power Networks' staff has confirmed that the approach adopted in accounting for distribution generation is the same across the three licensed areas.

   - o In relation to the supporting narrative documents, the count of substation sites classified as LI4 and LI5 at the beginning of ED1 indicated in each of the three licence areas aligns with that shown in the accompanying LI tables.

   - o From review of the documentation provided and discussions with UK Power Networks' staff, it is evident that a number of management interventions in relation to LRE and the impact on the LI tables have been performed across all three networks. Whilst we have not reviewed these interventions in detail we are satisfied having discussed the overall LRE and LI process with UK Power Networks' staff that such revisions are necessary and appropriate in developing the final LI tables.

**Operating Expenditure on Faults, Inspections & Maintenance and Tree Cutting**

- The Operating expenditure assessment was broken down into three categories: faults; inspection & maintenance (I & M); and tree cutting. The elements of the overall process were critically reviewed against specific tasks, with a focus on the consistency and validity of the source data and formulation methodology. The business plan narratives were also reviewed for consistency. With regard to these elements of UK Power Networks' RIIO ED1 submission procedures, our review finds the following:

    o The established forecasting methodologies are generally applied consistently across the various asset classes. Where differences were noted, they were due to management interventions, engineering judgement and the assumptions that drive those interventions.

    o The methodologies utilise historical data sources which are considered appropriate for the cost forecasting process and dialogue with UK Power Networks' Strategy & Regulation staff has been able to demonstrate that the unit costs are suitably benchmarked.

    o A cost efficiency policy has been adopted within the business for the ED1 period, and the remainder of DPCR5, leading to significant changes in total expenditure projections compared to historical values. Whilst we cannot verify the achievability of the efficiency goals, it is clear that the unit costs developed from these goals are closer to the industry average than historical values.

    o It was observed that an element of engineering judgement is applied to determining volume trends within the Opex Fault narrative; however, this has been applied in a consistent manner throughout the documentation, with consideration given to management intervention requirements.

    o The management interventions and assumptions applied in the forecasting process are generally reasonable, although not always clearly stated in the documentation.

    o The Opex activity profiles proposed in the business plan narrative documents were found to be consistent with the forecast data. In a few cases, data errors were observed due to human error in typing or copying. The process of finalising the justification documents should give the opportunity to correct these errors

# 3 Background

## 3.1 Background to governance and assurance within UK Power Networks

UK Power Networks (UKPN) operates within a structured governance framework to ensure delivery of its organisational strategy, compliance with applicable legal and regulatory obligations as well as meeting the requirements of its key stakeholders.

Risk management, compliance management and internal control processes act as enablers for the delivery of effective governance and provide the structures to demonstrate that adequate internal controls are in place and operating satisfactorily for all stewardship and reporting obligations. The key components of the framework are detailed in Figure 1.

**Figure 1 UK Power Networks' governance framework**



**Executive & Board Management**

- The constitution and terms of reference
- The operations roles and accountabilities of the Board (RACI model)
- The composition of the Executive
- The organisational structure of the Board and the Executive
- Executive processes and communication
- Executive incentives and compensation

**Internal Control System**

- The processes for setting strategy, decision making and change management
- Organisational culture, values, the Code of Conduct and corporate responsibility
- Corporate structures, reporting lines, accountability and communication
- Management information, monitoring, challenge and reporting
- Stewardship and external disclosure
- Delegated Authorities
- Control processes, standards and procedures

Corporate Governance

Board

Executive team

Internal Control System

Compliance Management

Risk Management

Internal Audit / Assurance

**Risk Management**

- Risk strategy and appetite
- Risk management structures, roles and responsibilities
- Identifying and assessing risks and controls
- Review, analysis, risk assurance and reporting
- Using risk and control information to create value (e.g. to inform strategic planning)

**Compliance Management**

- Compliance organisation (processes and structures)
- Legal framework
- Code of Conduct
- Whistleblower Hotline
- Anti Fraud Management

**Internal Audit / Assurance**

- Business and management assurance
- Corporate oversight, challenge and policies and procedures
- Independent assurance provision (Internal and External Audit)
- Reporting
- Efficiency of structure, organisation, people and processes
- Risk orientated approach

A description of each component of the governance model is set out below:

### 3.1.1 The board

The Board of Directors is responsible for the performance of the company in both the short and long term and seeks to balance the competing objectives of its stakeholders in the best interests of UK Power Networks. The Board has established a number of Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. These committees are:

**The audit committee**

This committee assists the Board with its responsibilities for financial reporting and maintaining an efficient system of internal control and internal and external audit processes.

**The risk management and compliance committee**

This committee assists the Board with its responsibilities in relation to risk management and oversees compliance with obligations determined by statute, legislation, regulation, contract or agreement.

**The treasury committee**

This committee oversees the treasury strategy, policy and procedure development and ensures that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.

**The remuneration committee**

This committee makes recommendations to the Board on the policies and structure in relation to the remuneration of senior management and employees.

### 3.1.2 Executive management team

The Board has put in place a clearly defined and documented delegation of authority to ensure that all information and analysis is appropriately considered within the organisation before it is distributed more widely. All information is reviewed by one or more members of the executive management team with the appropriate experience and knowledge of the activities being reported on and the processes followed to compile the reported information.

As a minimum, before any information is submitted to the Regulator it is reviewed and approved by the EMT member responsible for the subject matter and the Director of Strategy & Regulation and CFO.

### 3.1.3 The system of internal control

Operating an appropriate system of internal control with sufficient rigour applied to transactional and management oversight controls has ensured that UK Power Networks' internal and external reporting is reliable and supports compliance with law and regulation. The control system encompasses policies, processes, tasks, behaviours and other activities to facilitate effective and efficient operations that enable UK Power Networks to respond to significant business, operational, financial and compliance challenges. The principal policy for managing the regulatory requirements for reporting to the regulator is UK Power Networks' data assurance framework policy attached as Appendices Impact risk assessment and Process risk assessment.

It should be noted that the data assurance framework reduces but cannot eliminate the possibility of poor judgement in decision making, human error, management overriding controls and the occurrence of unforeseen circumstances.

### 3.1.4 Compliance management

UK Power Networks has also put in place a suite of ISO procedures and monitors compliance with these as part of an Integrated Management System that was accredited by an external agency for compliance with BS EN ISO 9001:2008 Quality Management Systems, BS EN ISO 14001:2004 Environmental Management Systems, OHSAS 18001:2007 Occupational Health & Safety Management Systems and PAS 55 Asset Management System.

### 3.1.5 Independent assurance

Independent assurance is received from a number of different sources:

- The **financial statement auditor** who provides an independent opinion on the financial statements and also performs a series of procedures agreed by Ofgem to confirm compliance with several additional aspects of the licence

- **Other external assurance providers** – As and when required, independent assurance opinions will be procured from third party consulting organisations with specialist experience and knowledge
- The **internal audit function** – Within UK Power Networks the internal audit function is independent of executive management as it reports directly to the Audit Committee Chairman. The function carries out independent assessments and analysis of the adequacy and effectiveness of the risk management and internal control systems within the business

# 4 Application of the governance and assurance model

## 4.1 Overview

To manage the risk of not delivering a well justified business plan UK Power Networks has followed the main principles of its governance and data assurance framework policy. In doing so, UK Power Networks has ensured the components of the business plan with the most significant impact on the price reset have received the appropriate level of internal and external scrutiny before submission

The objectives of the data assurance framework policy have been reviewed to ensure that UK Power Networks identifies and manages the significant risks that affect the quality of analysis and information that support the business plan. To enable the mitigation to be effective, specific assurance activities, both internal and external, have been conducted that:

- Assess the quality of the business plan narrative and supporting data tables to ensure they are robust, reliable, produced on a timely basis and reviewed and approved in accordance with corporate policy
- Identify potential weaknesses in the information or analysis and set out the corrective actions required to be taken before submission of the business plan

The principal components of the assurance framework followed were:

## 4.2 Risk assessment

To ensure that the assurance activities conducted are proportionate to the importance of the information within the business plan, the key components of the business plan contents were risk assessed. The basis of the assessment was changed slightly from the data assurance framework policy so that they were aligned more closely with the needs of the business planning process. The risk assessment criteria were revised to be:

- Process risk: an assessment of the likelihood of inaccurate or incomplete reporting or misreporting of data and narrative analysis in the business plan
- Impact risk: an assessment was made in relation to the size of financial impact on the regulatory revenue settlement of inaccurate or incomplete reporting or misreporting of data and narrative analysis in the business plan

## 4.3 Assurance model

The assurance model being followed is consistent with the UK Power Networks data assurance framework and follows three lines of defence model similar to that employed to monitor the effectiveness of the system of internal control.

### 1st line of defence

Management operates a monitoring and review process over the preparation of the plan narrative and associated data. This process seeks to provide a mechanism to demonstrate that a reasonable approach to assurance has been taken, with confirmation in writing provided that the data for which they are responsible has been validated for completeness, accuracy and is internally consistent with the accompanying narrative explanations. In terms of making this representation, management has as a minimum, ensured the following:

- The information provided complies with the regulatory requirements
- A sample of source data has been checked and it matches to the figures in the final report

- Data calculations and extractions from systems used to support the submission are correct
- Manual manipulation of the data has been reviewed and appropriately justified
- Relevant data has been input into the correct cells
- Variances in data from the previous years are understood and where material an explanation is provided.

**2<sup>nd</sup> line of defence**

The Regulation, finance and Business Planning functions have reviewed and challenged the information prepared by management to ensure that it stands up to the level of scrutiny consistent with that expected from the Regulator.

**3<sup>rd</sup> line of defence**

Independent assurance has been provided in relation to the principal components of the business plan, specifically in relation to the completeness, accuracy and appropriateness of the data analysis and accompanying narrative.

In addition to the above there are further internal checks and reviews on the information and analysis, most notably:

- Executive Management review and approval
- Regulatory Governance and Business Planning Committee review
- CEO review and approval

At the date of the submission, all assurance activity was completed, with both Director and CEO review and approval steps being concluded.

## 4.4    Determination of assurance scope and provider

The results of the quality and impact risk assessment were used to drive the assurance model. Low risk activities generally followed an internal assurance procedure with a fixed scope of work consistent with that noted above in the first line of defence section.

The high risk areas or areas with significant levels of management judgement had a greater level of external assurance and these are shaded blue in Figure 2. Areas where external input was sought on the quality of the content of the business plan but assurance provided internally are coloured orange and those highlighted green were only subjected to internal assurance processes.

**Figure 2 Assurance model**
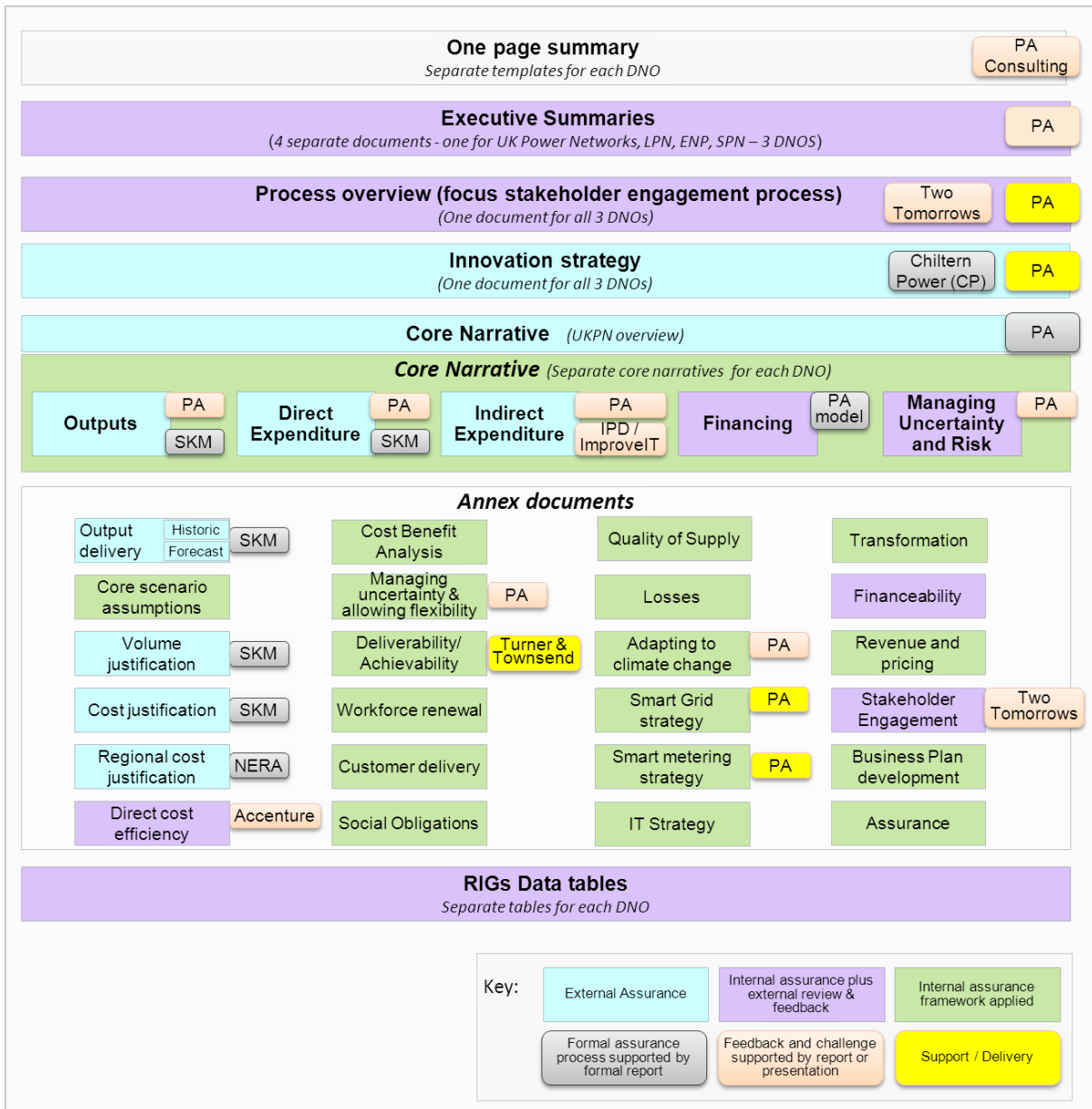
# 5 External assurance of activities

Set out below are the areas of the RIIO-ED1 business plan that were subject to external assurance and the scope of work to be completed by the external experts.

## 5.1 Business plan executive summary and core DNO submission documents

Two review and challenge activities were completed, one by Indepen and one by PA Consulting.

The Indepen challenge was provided by an expert panel drawn from senior executives from across government, regulated and unregulated businesses as well as inside and outside the electricity sector. The focus of the challenge process was to assess whether:

- The information as presented would be understandable to Ofgem and that the UK Power Networks' point of view fits comfortably within the strategic context of the business plan
- The business planning and stakeholder engagement process UK Power Networks has adopted reflects, where possible, best practice and that as a result, the businesses will be able to deliver against the assumptions it has made

The challenge from Indepen was complimented by PA Consulting work. PA Consulting provided an overarching sense check that the story and key messages UK Power Networks was conveying in its business plan resonated with Ofgem requirements.

PA Consulting has also confirmed that the key messages and historic data contained within the business plans were consistent with supporting evidence provided.

Desk top reviews of the published business plan consultation documents were conducted by Navigant Consulting and PwC to assess whether the plans would fulfil the requirements of the regulator, when measured against the published criteria set out by Ofgem.

### 5.1.1 Stakeholder engagement

Two Tomorrows reviewed the stakeholder engagement aspects of the business plan and provided comments on whether it resonated with their understanding of what is happening in practice.

### 5.1.2 Network outputs

SKM performed a technical assurance review of the network output elements of the business plan submission and associated data. The review addressed key aspects of the submission and included:

- A review of load forecast methodologies, the scenarios adopted for the capacity prediction and whether these are then correctly interpreted into Load Indices (LI). This assessment being supported by a review of a sample of projects to determine if the Network Asset Management Plan addresses the forecast
- A review of Health Indices (HI) to confirm that the recommendations made in a recent assessment of the HI process have been completed. A review of the new methodology for assessment of asset risk criticality and how it has been implemented. As for LI's a sample check of projects was undertaken to confirm that the models and methodologies have been correctly applied to develop the HI table used in the submission and that the business plan narrative is supported by the data
- A review of the Opex elements of Faults, Inspection and Maintenance and Tree cutting to assess how the forecast was developed and whether the delivery plans had been appropriately constructed and that the unit costs used were reasonable

In addition, as part of the network outputs considerations, UK Power Networks also asked Chiltern Power to review and comment on the SMART Networks interventions proposed and the impact these would have on network outputs. This work considered the merits of the schemes being implemented by UK Power Networks, in terms of FEASIBILITY of practical deployment, AVAILABILITY and supply chain considerations, SUITABILITY to the network and its organisation, COMPLETENESS in regard to alternatives or variants, and at a general level the CONSUMER ENGAGEMENT requirements or impacts.

### 5.1.3 Real price effects and total factor productivity

NERA was asked to review calculations of Real Price Effects (RPEs) and Total Factor Productivity (TFP) for the period 2015 to 2023.

As part of the RPE review, NERA examined the principal cost indices (some of which Ofgem has identified in the strategy consultation) in order to assess which index will most closely reflected UK Power Networks' costs by :

- **Theoretical robustness**: Does the index (or combination of indices) measure the evolution of costs for a category of expenditure close to the categories identified
- **Empirical fit:** Does the index closely match UK Power Networks' past cost inflation

As part of the TFP review, NERA helped identify and estimate proxies for a true measure of TFP, suitable for use in ED1 as well as "Partial Factor Productivity" (PFP) for individual network investment estimates (again, the relevant factors of production) by reviewing historical time-series evidence drawing on the EU KLEMS (capital (K), labour (L), energy (E), materials (M), and services (S)) database. The database provides TFP and PFP estimates for UK (and other countries) for the period since 1970.

#### 5.1.3.1 Other matters covered by external assurance or challenge activities

#### Cost of debt and equity

Advice on the cost of capital and other financial matters was provided by OXERA through the Energy Networks Association.

#### Financial modelling

An independent firm of chartered accountants reviewed the corporate financial model and confirmed that the assumptions used within the model have been appropriately modelled, correctly calculated and presented accurately in the primary financial tables;

#### Cost benchmarking

Various other reviews were conducted by third party experts to assess the credibility of the indirect expenditure estimates made by UK Power Networks.

- Frontier Economics, who supported the development of a totex benchmarking model, which was subsequently adopted by Ofgem
- Accenture, who supported the preparation of 'to be' unit costs as part of the Direct Cost Efficiency project
- PA Consulting reviewed our indirect costs to identify opportunities for greater efficiency, based on benchmarking our business support costs against a range of other utility companies

#### KPMG business plan data table review

KPMG analysed the Ofgem business plan data tables that UK Power Networks completed, in order to identify

- Potential incomplete and/or missing data
- Negative costs or volumes
- Potential inconsistencies between volume and cost entries by identifying instances where costs have no associated volume (or vice versa)
- Potential inconsistencies between historical numbers and forecast numbers through trend analysis of historical and forecast periods

The results of KPMG's work can be summarised as follows

- Data analysis was performed on approximately 1.2 million input cells from the Ofgem business plan data template, which resulted in only 5,278 cells (less than 0.5% where further investigation or clarification was required to confirm that an appropriate treatment was applied by UK Power Networks to the cell

- After confirming that the appropriate treatment was applied by UK Power Networks, less than 38 cells (less than 0.003%) remained to be considered by management. The content of these cells was considered and where a material issue was identified a change was made

KPMG also tested on a sample basis the cost and data inputs on the CV3 (Asset Replacement) and CV101 (Reinforcement and Demand Side Management) business plan data tables to the underlying PIMS records as well as a targeted number of checks on a sample of items from the CV3 and CV101 business plan data tables in order to consider whether the narrative description is consistent with the description of the items in PIMS. Their work indicated that the cost and data inputs on the CV3 and CV101 business plan data tables agreed to the underlying PIMS records. No issues were identified.

We have included a final copy of KPMGs final report.

***Where possible, we have published many of the outputs of these assurance and benchmarking activities on our website. However, due to confidentially/legal constraints we have not been able to publish everything.***

# 6　Appendices

## A.1　Impact risk assessment

(See next page).

| | Customers | Competition | Financial | Comparative Efficiency | Business Continuity |
|---|---|---|---|---|---|
| 4 | Creates a breach in licence conditions that has a major service impact on all public network customers or a major impact on all ICPs or a major impact on all IDNOs | High impact on the ability of third parties to compete in the market place | An error or omission gives rise to a major financial impact ( >±5% of price control revenue per annum) | Error will impact on comparative efficiency analysis and the error itself was ±£1m per annum | High impact on whether a DNO can continue to perform its core licensed functions |
| 3 | Creates a breach in licence conditions that has a moderate impact on all customers or a major service impact on a small number of public network customers or a moderate impact on all ICPs or a moderate impact on all IDNOs | Moderate impact on the ability of third parties to compete in the market place | An error or omission gives rise to a significant financial impact (>±1% of price control revenue but less than ±5%) | Error will impact on comparative efficiency analysis and the error itself was ±£200k-£1m per annum | Moderate impact on whether a DNO can continue to perform its core licensed functions |
| 2 | Has a moderate service impact on some public network customers or a moderate impact on some ICPs or a moderate impact on some IDNOs | Low impact on the ability of third parties to compete in the market place | An error or omission gives rise to a low financial impact ( <±1% of price control revenue) | Error will impact on comparative efficiency analysis and the error itself was up to ±£200k per annum | Low impact on whether a DNO can continue to perform its core licensed functions |
| 1 | Has no service impact on public network customers or ICPs or IDNOs | Has no impact on the ability of third parties to compete in the market place | No financial impact on the level of incentives receivable from the Regulator | Information provided in this return is not used for comparative analysis to set future allowances | No impact on DNO's ability to perform its core licensed functions |

## A.2 Process risk assessment

| | Reporting Assessment | | | | Control Assessment | | |
|---|---|---|---|---|---|---|---|
| | 1.Complexity of data sources | 2.Completeness of data set | 3.Extent of manual intervention | 4.Complexity & maturity of reporting rules | 5.Control framework | 6.Experience of personnel | 7.Evidence of historical errors with this data |
| High | Two or more data collection systems, with data collation and reporting routines that have not been fully automated. | Data not routinely captured by DNO to populate this report. Reporting for a significant number of elements of the submission is based on extrapolation of sample data rather than full data set. | More than 60% of the data is manually collated and reported. | The rule set is incomplete **or** the rules require significant interpretation, judgement or assumptions **or** the first issue of rules have been completed within the last 12 months. | There are inadequate validation / preventative controls **or** controls have been in place for less than 12 months **or** systems and processes not documented and control points not assessed (ie any such material lacks substantial coverage) **or** Regulatory submissions not subject to effective review or supervision processes. | This submission being collated by employees with no prior experience of doing so **and** no method statement available to explain prior year approach to completing this report. | Material errors identified by Ofgem or audit processes for this report, or table level as appropriate, within the last two years; and the issues identified have not been addressed **or** no audit undertaken on this submission in the last five years. |
| Medium | Single data collection system with data collation and reporting routines that have not been fully automated. | Data routinely captured by DNO to populate this report but for less than 2 years **or** some elements of reporting based on extrapolation of sample data rather than full data set. | More than 0% but less than 60% of the data is manually collated and reported. | The rule set is complete and has not changed for at least 12 months but the rules require some interpretation, judgement or assumptions. | There are adequate validation / preventative controls **and** controls have been in place for more than 12 months but less than 2 years **and** systems and processes substantially documented and control points assessed **and** regulatory submissions subject to effective review or supervision processes. | This submission being collated by employees with no prior experience of completing this submission but using method statements for prior submissions to support them **or** this submission being collated by employees with prior experience of completing this submission – with no method statements for prior years available. | Material errors for this submission have been identified within the last two years for which all issues have been remediated but not yet validated by subsequent audits **or** no audits undertaken on this data within the last two years, but audit has been undertaken within the last 5. |

| | | Reporting Assessment | | | | Control Assessment | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | 1.Complexity of data sources | 2.Completeness of data set | 3.Extent of manual intervention | 4.Complexity & maturity of reporting rules | 5.Control framework | 6.Experience of personnel | 7.Evidence of historical errors with this data |
| Low | | Data collation and reporting processes that have been fully automated. | Complete data set routinely captured to populate this report for 2 years or more | Data collation and reporting are fully automated. | The rule set is complete; the rules require no interpretation, judgement or assumptions; the rules have been in place for more than 12 months. | There are extensive validation / preventative controls **and** controls have been in place for more than two years **and** systems and processes fully documented5 and control points fully evaluated and assessed **and** regulatory submissions subject to comprehensive and effective review and supervision processes. | This submission being collated by employees with prior experience of completing this submission – with method statements for prior years in place **or** collation is fully automated. | Audit has been undertaken on this submission within the last two years and no material errors were identified a**nd either** there were no previously identified issues o**r** Audit confirmed that any previously identified issues have been properly addressed. |