



2015-2023

RIIO-ED1 BUSINESS PLAN

SA-09 Supplementary Annex –
Data assurance

June 2013 (Updated April 2014)

SA-09 Data assurance

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1 Introduction

- 1.1 This document is a Supplementary Annex to the Western Power Distribution (WPD) Business Plan for the eight year period from 1st April 2015 to 31st March 2023.
- 1.2 It sets out the background to internal control within WPD, the data assurance processes that we have followed in the development of the plan and provides guidance on how the plan complies with Ofgem’s Business Plan assessment criteria.
- 1.3 It relates to all four WPD distribution licences of West Midlands, East Midlands, South Wales and South West.
- 1.4 The eight year period aligns with the next regulatory price control review period, known as RIIO-ED1; the first for electricity distribution to be determined using Ofgem’s Revenue = Incentives, Innovation and Outputs framework. The Business Plan, Supplementary Annexes, detailed cost tables and financial models form the submission under RIIO-ED1 to the regulator Ofgem (Office for Gas and Electricity Markets), who will use the information to determine allowed revenues.

Structure of this document

- 1.5 We appreciate that the readers of the WPD Business Plan suite of documents will range from regulatory experts and well informed stakeholders through to new customers who may have had little previous knowledge of WPD.
- 1.6 This document is aimed at readers who require a more detailed understanding of the data assurance approach we have taken in developing the Business Plan.
- 1.7 This document is subdivided into the following sections:

Chapter	Title	Content
2	Data assurance	A brief description of the internal control framework in WPD, the overall approach to data assurance and the external and internal reviews that have provided assurance about the data being used in the Business Plan.
3	Business Plan assessment criteria	This section provides an indication of how the plan aligns to the assessment criteria defined by Ofgem in their RIIO-ED1 Strategy document.

2 Data assurance within WPD

Internal controls and Enterprise Risk Management (ERM)

- 2.1 WPD's governance and control structures have been designed to meet its needs as an electricity distribution network operator in a business efficient manner. The organisational design embeds many of these control and governance requirements. A core feature is the flat organisational structure with a culture that empowers employees to take personal responsibility.
- 2.2 The oversight of governance, risk management and internal control arrangements reside with the WPD Board. A core document is the Standards and Management policy that sets out the matters that are devolved to the executive and those decisions reserved for Board approval.
- 2.3 The executive have established an organisational structure with roles and responsibilities that are designed to meet organisational goals and embed a robust controls framework. The structure reflects the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and embeds the five components of effective internal control – control environment, risk assessment, control activities, information and communication, and monitoring activities.
- 2.4 Risks are managed by our process owners. They are responsible for designing and managing the necessary controls with internal audit verifying the completeness and adequacy of controls. Process owners operate within the wider framework of the corporate Enterprise Risk Management system. This provides visibility of the key and emerging risks and the actions or controls that manage or mitigate the risks.
- 2.5 WPD uses an in-house internal audit function to provide independent assurance over internal controls and risk management. The Audit and Business Controls Manager (Head of Internal Audit) reports to the Chief Executive Officer but is also accountable to both the WPD Board and the parent company Audit Committee. The programme of internal audit work is approved by the Board and reflects the main risk priority areas.
- 2.6 A key area of risk management in relation to the delivery of Business Plan outputs is WPD's Disaster Recovery and Business Continuity arrangements. Although a variety of threats can be recognised and planned for, such as the impact of fuel shortages, flu pandemics and severe weather events, of overriding importance is the ability to take effective action to respond to and manage *unforeseen* events. Core to maintaining operational service is the IT infrastructure supporting key systems. WPD has developed extensive IT disaster recovery arrangements which are described more fully in the Supplementary Annex SA-05 'Expenditure'. Our business model of local team based service delivery is highly resilient from a business continuity perspective because our systems are replicated at multiple locations.
- 2.7 When unforeseen disaster events do happen, we are able to redeploy people and equipment quickly and use neighbouring distribution centres. Our structure is complemented by a range of other supporting actions such as maintenance of contingent stock, ramp up facilities, equipped and trained homeworkers and emergency control room facilities. We keep our plans under review and frequently test them to ensure they remain effective. Network operational resilience is detailed in the supplementary Annex SA-05 'Expenditure' (sections 14 – flood defences, 15 – black start, 16 – substation and network security, 18 – security of critical network infrastructure and 19 – high impact, low probability events.)

WPD data control arrangements

- 2.8** WPD's preference is to design and build core systems and controls that align with the associated reporting requirements. WPD believes that strong system design taken together with automated controls reduce the need to rely on an additional layer of checkers to identify and correct errors. Resources are targeted at the core business processes to build in the necessary controls to achieve reporting accuracy. Where possible, WPD is automating data aggregation, extraction and input into reporting templates.
- 2.9** WPD aims to produce regulatory and public data that is accurate by:
- allocating responsibility for meeting reporting data requirements to named process owners. They are responsible for maintaining business processes which are aligned with reporting requirements and ensuring controls are in place to capture and record the required data;
 - operating IT systems that are designed to enforce complete and accurate data capture that complies with reporting requirements;
 - automating the aggregation of data and the completion of regulatory templates to minimise manual intervention;
 - following a formalised approach with method statements and standard checklists in the preparation, review and sign-off of each regulatory return;
 - employing a regulatory team to assist in understanding regulatory compliance requirements, co-ordinating the completion of compliance activities and undertaking certain regulatory returns or checking activities as appropriate;
 - using an in-house internal audit team to perform periodic independent process audit reviews to check that business processes are well designed and that controls are operating effectively;
 - using an in-house internal audit team to complete independent pre-publication data checks on key reports.
- 2.10** WPD's approach aligns with Ofgem's Data Assurance Guidance published on 17th February 2013 which sets out a common framework for the DNOs to assess data risks and communicate data assurance plans and activity to Ofgem. The guidance is being trialled for the remainder of DPCR5 with a view to adoption as a new licence condition for RIIO-ED1.
- 2.11** WPD recognises that data accuracy is critical to managing the business effectively, allowing regulatory oversight and to properly inform our stakeholders on the progress against our outputs. We continue to invest in initiatives that will reduce data risks or enhance the information available to inform our decision making. Recent examples include projects aimed at enhancing primary data capture and the use of software to automate the extraction and reporting of data for annual regulatory submissions.

Data assurance / audit work performed on the Business Plan

Ernst & Young review

2.12 We have engaged Ernst & Young to perform audit work in relation to the preparation of our Business Plan. Their work has covered:

- a review of a sample of expenditure forecasts included in the Business Plan against the principles and guidance set out in 'Prospective Financial Information: Guidance for UK Directors' issued by the Institute of Chartered Accountants in England and Wales (ICAEW);
- checking data reported in the sample of expenditure forecasts through to source data;
- a review of the treatment of a sample of key assumptions used in the plan;
- reviews of the integrity of key database models supporting the Business Plan;

2.13 Ernst & Young have issued a private opinion to the directors of WPD covering this work.

Internal audit review of the Business Plan governance arrangements

2.14 An internal audit review was completed to assess the overall adequacy of control arrangements for preparing the Business Plan. The overall aim was to ensure that key risks had been identified and suitable controls deployed to mitigate or manage those risks. The report concluded that arrangements for overseeing and co-ordinating the development of the WPD Business Plan were well controlled. The following tables below are taken from the audit report and set out how key governance requirements were achieved.

WPD has established a clear strategic direction underpinning the development of the plan	
Requirements	Control Actions
<p>Within the context of the regulated sector and the RIIO framework, the strategic direction is established through an understanding of stakeholder requirements and priorities. . It is important that:</p> <ul style="list-style-type: none"> • The stakeholder engagement process accurately identifies existing satisfaction with WPD performance (strengths and weaknesses). • The stakeholder engagement processes accurately capture stakeholder future priorities (opportunities and threats). <p>It is important that there is an effective process for understanding stakeholder priorities. Specifically:</p> <ul style="list-style-type: none"> • Stakeholders are fully engaged – e.g. the full range of stakeholders is identified and the process of engagement allows them to put forward their views. • Stakeholder views and priorities are correctly interpreted. • Competing or conflicting stakeholder priorities are reconciled to establish a balanced and fair strategic direction. • WPD modelling of costs to achieve certain outcomes is accurate. 	<ul style="list-style-type: none"> • The stakeholder engagement process has been utilised as both the mechanism for identifying strategic priorities, determining the scale of activities and for moderating / checking WPD's interpretation of stakeholder requirements (i.e. further engagement was completed on a draft plan). • The initial phases of stakeholder engagement were about identifying the main groups of stakeholders and their areas of interest. • 'Willingness to pay' research was then completed to understand and weight competing priorities. Initial customer research was blind of feasibility – i.e. it sought to build up a true understanding about how much value stakeholder groups attributed to output improvements. This was used to inform the magnitude of appropriate incremental spend. • Costed options were then put to stakeholders in Business Plan development workshops. Costing information was based on detailed modelling and recognised diminishing returns as appropriate. The stakeholder feedback informed the development of draft proposals and allowed WPD output target levels to be defined. This provided the main strategic guidance required for all the other Business Plan components. • Whilst there are risks associated with data interpretation of often subjective material, the process of using a final round of Business Plan workshops to consult on proposed plans provided a robust test assessment and allowed further stakeholder feedback to refine the plans.

Arrangements are in place for the management oversight and co-ordination of plan development.

Requirements	Control Actions
<ul style="list-style-type: none"> • Ensuring all necessary actions are identified and allocated. • Managing progress and achieving deadlines • Recognition of key dependencies in completing sections • Consistently enacting the WPD strategic decisions 	<ul style="list-style-type: none"> • Overall framework for governance established. Core price control team established under Network Services Manager leadership. Network Services Manager seconded to full time role of Price Control Manager. Core team includes all relevant senior managers from specialist areas covering finance, regulatory requirements, engineering planning and forecasting and network services. The team has an in-depth knowledge of the regulatory requirements and a detailed knowledge of WPD operations. Price Control Manager accountable to the Executive and in turn the Board. • Responsibilities within the core team have been established. Plan broken into sections and allocated to relevant subject matter expert. • Subject experts responsible for the draft delivery of the plan for their section. This includes related compliance checks, data controls, assumptions and sensitivity analysis. • Core team meets at least fortnightly. Collective review of whole plan helps ensure no gaps in task identification. The group reviews developments in regulatory requirements to ensure that they are incorporated into actions. • On-going action list maintained with target timescales.

Arrangements are established for managing content and updates in draft versions of the plan

Requirements	Control Actions
<ul style="list-style-type: none"> • Consistent voice or writing style from differing contributors. • Consistent commentary and data within the plan. • Authorisation and approval of edits and updates. • Typos / errors are corrected. 	<ul style="list-style-type: none"> • Draft versions of plan subject to counter review by core team and overall editing by lead manager to provide consistent style. • Audit checks on data consistency through the plan. • Version control protocols adopted. Restrictions made to limit users making amendments without approval.

Risks are managed in relation to key assumptions, compliance requirements and data accuracy.

Requirements	Control Actions
<p>Key assumptions:</p> <ul style="list-style-type: none"> • Key assumptions or external factors that could significantly affect the Business Plan are recognised. • Sensitivity around assumptions are understood. • Mechanism established to balance assumption risk between shareholders and customers. • Assumption value utilised for plan is based on robust analysis. <p>Compliance requirements:</p> <ul style="list-style-type: none"> • Ofgem information requirements for items that must be included or addressed by the Business Plan are fully recognised. • Business Plan compliance requirements are fully addressed. <p>Data Accuracy:</p> <ul style="list-style-type: none"> • Data is complete – i.e. fully extracted from underlying source systems. • Data is accurate – i.e. source systems contain accurate data. • Data is consistent within the Business Plan 	<ul style="list-style-type: none"> • The significant key assumption areas have already been identified and defined by Ofgem within the RIIO-ED1 strategy decision documents. This sets out some of the compliance requirements for DNOs to explain how the uncertainty is to be addressed. • Consideration of the uncertainty factors / key assumptions is addressed through the relevant component parts of the Business Plan. Where possible external expertise have been utilised to provide best professional view on likely outcome of unknown factors to assist the justification of the WPD assumption value. • Each area of uncertainty has been expanded upon within the plan to accommodate external factor outcomes that are different to expectations. • Ernst & Young engaged to review the treatment of a sample of key assumptions. • A compliance schedule has been developed from detailed analysis of Ofgem’s Strategy document to identify the Ofgem requirements within a RIIO-ED1 well justified Business Plan. Overall responsibility for recognising compliance requirements allocated. These were communicated to the other team members who were responsible for meeting compliance within their sections. A compliance internal audit was completed to confirm that regulatory compliance requirements have been adequately controlled. • Data accuracy. Generally mature underlying data capture systems with financial accounts subject to external audit and other systems subject to a rolling programme of internal audits. In relation to the Business Plan, Ernst & Young review completed on a sample of forecast figures in the plan reviewing data completeness and accuracy in relation to underlying systems. Further internal audit reviews were completed on the 2012-13 data data extraction for the Business Plan Data Templates as well as independent checks on consistency of Business Plan data and narrative. • Further core team and Independent expert reviews performed on draft versions of the plan to check for data and narrative consistency.

Internal audit review of 2012/13 data extraction for inclusion in the Business Plan Data Templates

- 2.15** An internal audit review was completed to provide assurance over the completeness and accuracy of 2012-13 data extraction for inclusion in the Business Plan Data Templates. Much of the data was extracted using the new Hyperion computer system implemented to assist with regulatory reporting. The review considered how key risks were managed and covered sample checks in key areas.
- 2.16** The internal audit review confirmed that risks had been recognised and controlled. No material errors were detected.

Independent review of the Business Plan

- 2.17** Independent reviews by internal audit, line managers and third parties have been completed on draft versions of the Business Plan. These have sought to:
- Verify that data contained within the plan is consistent throughout the document.
 - Check that narrative is consistent with data
- 2.18** All matters identified were discussed with management and have been resolved. No material errors were detected.

Internal audit review of the management of compliance requirements within the Business Plan

- 2.19** There are a number of Business Plan information requirements stipulated by Ofgem to enable it to be treated as well justified. In general, the requirements are intended to ensure that Ofgem has sufficient information to enable it to complete its assessment. An internal audit review was completed to provide assurance over the adequacy of arrangements for managing compliance requirements.
- 2.20** The audit looked at the arrangements for recognising and recording regulatory compliance requirements as well as the mechanisms for managing the achievement of the requirements. Sample checks were made against specific compliance requirement to verify that the matter is addressed with the Business Plan.
- 2.21** The internal audit confirmed that processes for meeting Business Plan regulatory compliance requirements had been well managed. The audit did not identify any unaddressed compliance requirements.

Statement on the completeness of WPD's Business Plan submission

2.22 The Directors confirm that the RIIO-ED1 Business Plan 2015-2023 for Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc have been provided in accordance with Ofgem's 'Strategy decision for the RIIO-ED1 electricity distribution price control' published on 4th March 2013.

2.23 Director signatures:

Handwritten signature of Robert Symons in black ink, featuring a long horizontal stroke at the end.

Robert Symons, Chief Executive Officer

Handwritten signature of Charl Oosthuizen in blue ink, with a horizontal line at the end.

Charl Oosthuizen, Finance Director

Handwritten signature of Phil Swift in black ink, with a stylized, cursive script.

Phil Swift, Operations Director

Handwritten signature of Dave Harris in black ink, with a cursive script.

Dave Harris, Resources & External Affairs Director

3 RIIO-ED1 Assessment Criteria

- 3.1 Ofgem's RIIO model outlines the criteria against which Business Plans should be assessed and these have been specified in Ofgem's Strategy decision document for RIIO-ED1. There are five core criteria and a series of questions that Ofgem will use to assess this Business Plan. This section provides an overview of how the plan meets each of the assessment criteria.

Process: Has the DNO followed a robust process?

Is the Business Plan clearly presented, with all key content included?

- 3.2 Our plan follows the requirements set out in Ofgem's RIIO-ED1 Strategy documents and is structured to facilitate easy referral from Ofgem strategy requirement to the relevant section in the WPD Business Plan. All key content has been included.

Has the DNO engaged with stakeholders, and explained how this has influenced its Business Plan?

- 3.3 WPD has undertaken the most extensive stakeholder engagement programme ever and stakeholder impact on the plan is reflected throughout the document. For a summary see the WPD Business Plan Overview document, section 6 'Developing a plan for our stakeholders'.
- 3.4 For a detailed overview see the Supplementary Annex SA-01 'Stakeholder Engagement' which explains the stakeholder engagement strategy and the impact it has had on the Business Plan.

Has the DNO submitted, and justified, all data templates and the PCFM?

- 3.5 PCFM and data templates are fully complete and included in data upload. The data templates include justification required by Ofgem.

Does the Business Plan provide a strategy for long-term delivery?

- 3.6 Our strategy for long-term delivery is set out in the WPD Business Plan Overview document, sections 5 'Developing a plan for our business' and section 6 'Developing a plan for our stakeholders'.
- 3.7 Further details on the ways in which the plan provides for long-term delivery are provided in Supplementary Annex SA-05 'Expenditure', Supplementary Annex SA-04 'Outputs' and Supplementary Annex SA-03 'Innovation'.

Outputs: Does the plan deliver the required outputs?

Has the Business Plan covered the outputs specified in our strategy decision or provided clear and compelling justification for any departures from the strategy decision?

- 3.8** Supplementary Annex SA-04 'Outputs' details the outputs specified in the Ofgem Strategy decision document along with WPD's response. Additional voluntary outputs have been incorporated into our plan based upon engagement with our stakeholders.

Has the DNO explained the resource implications for delivery of each output identified?

- 3.9** We have explained our approach for achieving each of the outputs in the Supplementary Annex SA-04 'Outputs'. We have mapped out core expenditure to the relevant outputs.
- 3.10** The resource requirements for the delivery of outputs has been considered for each output. For example, see section in Supplementary Annex SA-05 'Expenditure' section 42 on workforce renewal.

Has the DNO explained how it will deliver outputs, and justified output baseline/forecast?

- 3.11** Supplementary Annex SA-04 'Outputs' details our approach for achieving each of our output targets. The results of stakeholder engagement are detailed in Supplementary Annex SA-01 'Stakeholder engagement' which describes the outputs our stakeholders would like us to deliver.

Has the DNO explained the quality of its existing outputs and secondary deliverable information (including information on asset health, criticality and asset risk) and how it plans to improve this information in future?

- 3.12** Supplementary Annex SA-05 'Expenditure' sets out our approach for managing information relating to outputs and secondary deliverables along with our plans for refining the accuracy of data and the robustness of our secondary deliverables modeling systems.

Resources (efficient expenditure): Are the costs of delivering the outputs efficient?

Has the DNO demonstrated that cost projections are efficient?

- 3.13** Supplementary Annex SA-08 'Business Performance, Efficiency and Benchmarking' sets out how we have assessed the efficiency of our cost projections.

How does the plan compare with others/ does it reflect wider best-practice?

- 3.14** Supplementary Annex SA-08 'Business performance, efficiency and benchmarking' sets out our benchmarking methodology and the results of benchmarking.

Has the DNO demonstrated that their financial costs are efficient (e.g. through market-testing)?

- 3.15** Supplementary Annex SA-07 'Financing the plan' describes how the plan will be financed and the steps taken to ensure financial costs are efficient.

Has the company explained cost projections in context of historical performance?

- 3.16** Our historical performance is set out in the WPD Business Plan Overview document, section 4 'Our track record'. Further details are included in Supplementary Annex SA-08 'Business efficiency, performance and benchmarking'. Forecast spending plans are detailed in the Supplementary Annex SA-05 'Expenditure' along with the context of our spend and activity during DPCR5.

Has the company demonstrated a consideration of alternative approaches to achieving value for money in the delivery of its outputs?

- 3.17** Our historical business performance is reviewed in the WPD Business Plan Overview document, section 4 'Our track record'. Overall business efficiencies and key WPD characteristics that have delivered that efficiency are described in the Supplementary Annex SA-08 'Business performance, efficiency and benchmarking'. Specific options for material items of expenditure are assessed in the Cost Benefit Analysis in Supplementary Annex SA-05 'Expenditure'. Our innovation strategy and the way in which alternative "smart" solutions are integrated into our plans is included in Annex SA-03 'Innovation', as well as section 8 'Innovation' of the core document.

Has the company clearly linked its expenditure to relevant outputs and secondary deliverables?

- 3.18** We have explained our approach for achieving each of the outputs in the Supplementary Annex SA-04 'Outputs'. We have mapped out core expenditure to the relevant outputs. Refer to Supplementary Annex SA-05 'Expenditure' and Supplementary Annex SA-04 'Outputs'.

Resources (efficient financing): Are the proposed financing arrangements efficient?

Does the Business Plan conform with the financial policies specified in the strategy, are any departures well-justified?

- 3.19** Supplementary Annex SA-07 'Financing the plan' specifies all the financial assumptions used in determining finance costs. Details of our policies and explanations for our assumptions are stated. There are no departures from financial policies.

Has the DNO provided evidence that financial costs are efficient?

- 3.20** Supplementary Annex SA-07 'Financing the plan' describes how the plan will be financed and the evidence required to show that financial costs are efficient.

Is the data in the plan consistent and has the DNO explained cost projections in context of historical performance?

- 3.21** Our approach to data validation is explained in Supplementary Annex SA-09 'Data Assurance'.
- 3.22** Our historical performance is set out in the WPD Business Plan Overview document, section 4 'Our track record'. Forecast spending plans are detailed in the Supplementary Annex SA-05 'Expenditure' along with the context of our spend and activity during DPCR5. Amounts shown for all years up to and including 2012/13 are actual and the forecasts for 2013/14 and 2014/15 have been prepared on a consistent basis with both our internal budgeting and the RIIO-ED1 forecasts included in the plan.

Uncertainty & risk: How well does the plan deal with uncertainty and risk?

Has the DNO clearly articulated the key uncertainties it faces and considered how it will address them (e.g. including uncertainty mechanisms)?

- 3.23** Supplementary Annex SA-06 'Uncertainty', Supplementary Annex SA-03 'Innovation' and the Overview document at section 11 'Uncertainty' set out the uncertainties we face and how we will address them.

Has the DNO considered risk and how to mitigate those risks?

- 3.24** Supplementary Annex SA-06 'Uncertainty' details those risks where no uncertainty mechanism is required because WPD will bear the risk. This supplementary annex provides an overview of our governance and risk management arrangements. Specific spending to address network operational risks is detailed within Supplementary Annex SA-05 'Expenditure'.