

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper



Scottish and Southern Energy Power Distribution

RIIO-ED1 Business Plan

Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op Capex Supporting Paper

C36 - Indirects



References

Paper Reference Code RIIO-ED1_SSEPD_BP2_Mar14_indirect_costs
 File Reference \\RIIO-ED1_BP2 Final\Ofgem Uploaded Mar2014\
 Output Paper Reference [Finance](#)
 Issue Number Issue 2
 Issue Date 01/07/2013
 Copy No 1

Issue Status	Date	Approval Signature
Proposed	10/06/2013	<i>Kenny McAllister</i>
Approved	17/06/2013	<i>Steven Kennedy</i>
Proposed	07/03/2014	<i>Kenny McAllister</i>
Approved	14/03/2014	<i>Steven Kennedy</i>


Abbreviation List

Abbreviation	Definition
BSC	Business Support Costs
CAI	Closely Associated Indirects
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
DNO	Distribution Network Operator
DPCR5	Distribution Price Control Review 5
EMCS	Engineering Management & Clerical Support
FBPQ	Forecast Business Plan Questionnaire
IT	Information Technology
NMC	Network Management Centre
OFGEM	Office for Gas and Electricity Markets
OPEX	Operational Expenditure
RIIO-ED1	Revenue = Incentives + Innovation + Outputs, Electricity Distribution 1
SEPD	Southern Electric Power Distribution
SHEPD	Scottish Hydro Electric Power Distribution
WFR	Workforce Renewal
WTE	Whole Time Equivalent

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

SSEPD Documents

MA-PS-001



<u>Document Type</u>	<u>Business Area</u>	<u>Number Sequencing</u>
MA – Manual	PS – Power Systems	001
PO – Policy	PS – Power Systems	001
PR – Procedure	PS – Power Systems	001
TG – Technical Guidance	PS – Power Systems	001
WI – Work Instruction	PS – Power Systems	001
RS – Risk Standard	SHE – Safety, Health & Environment	001

Table of Contents

1	Overview	6
2	Summary of Expenditure & Approach	7
2.1	Current rules applied for DPCR5.....	7
2.2	Proposed changes for RIIO-ED1	7
3	ED1 Forecast & Assessment of Current Efficiency – Indirect Costs	10
4	Non Operational Capex	34
	Appendix A	38

PAGE INTENTIONALLY LEFT BLANK

1 Overview

In this paper we will detail the justification and rationale for the existing and future level of Closely Associated Indirects (CAI) and Business Support Costs (BSC) that are contained within our Business Plan. We will also provide analysis and justification for SHEPD and SEPD Non Operational Capex expenditure.

Current position / forecast within DPCR5

In Ofgem's analysis contained within the DPCR5 Final proposals, SEPD was shown to be at the frontier of efficiency for total indirect costs and SHEPD in the upper quartile of efficiency for CAI. Using the comparative analysis cost assessment tools currently available our analysis of the first 2 years of DPCR5 shows that both our DNO's have continued to operate at the forefront of operating efficiency during DPCR5. This analysis is documented in detail within this paper.

The SSEPD business model and operating philosophy drives us to continuously focus on identifying efficient levels of performance and tightly controlling operating costs. This approach has not changed during DPCR5.

SSEPD strategy & Forecast expenditure for RIIO-ED1

During RIIO-ED1 our strategy on managing indirect costs will not change. Our aim is to provide a value for money service to our customers and deliver our regulatory targets and outputs. We will continue to strive to deliver operating efficiencies during the period by continuously examining how we deliver services and support to the direct business activities and looking for more innovative and smarter working practices. Our aim is to remain at the forefront of operational efficiency when compared with other DNO's.

Historically, we have targeted a 1% p.a. efficiency saving to be delivered in all areas of indirect costs. This target will not change. We forecast that this will result in savings within CAI & BSC throughout ED1 of £3.1m within SHEPD and £5.9m within SEPD.

We have not discussed the impact of Real Price Effects (RPE), for costs rising above RPI, within this paper. The impacts of RPE's are contained within table 'PE101 - RPEs & Efficiency' within the BPDT and our approach is outlined in our Efficiency paper ('Be Efficient').

We have, however, included within our cost forecast additional costs where we are required to or aim to improve our levels of customer service or meet tighter regulatory targets (i.e. 12 hour fault restoration guaranteed standard instead of the previous 18 hour standard). The justifications for these additional costs are contained within this paper.

A full analysis of our forecast for Gross Indirect costs can be seen in Appendix 1 of this document.

Summary

Within RIIO ED1 we will spend £446m Total Gross Costs in SHEPD across the areas of CAI, BSC and Non Op Capex, and £795m in SEPD. This is 90% of our DPCR5 allowance and an increase of 8% on our forecast DPCR5 spends.

We believe this is an efficient and justifiable forecast for ED1 and the following paper details ED1 changes and demonstrates current efficiency in relation to other DNO's. We strongly believe that we will continue to operate at the forefront of efficiency throughout the ED1 period.

2 Summary of Expenditure & Approach

2.1 Current rules applied for DPCR5

- 2.1.1 During the cost assessment process performed by Ofgem for DPCR5, and published in the DPCR5 final proposals, the assessment concluded that SEPD was the frontier efficient company for total indirect cost, while SHEPD was deemed to be an averagely efficient company for total indirect costs.
- 2.1.2 We operate both our DNO's in the same way with the same strategy towards indirect costs. SHEPD was within the upper quartile of efficient companies for CAI but was slightly below the efficient average for BSC. In our opinion, this was due to the fact that SHEPD is one of the smallest DNO's in the UK and carries a higher percentage of fixed costs in relative terms within BSC costs.

We strongly believe our operational business model allows us to operate and deliver operational efficiencies. This model has been maintained and strengthened during DPCR5, with a continuing focus on efficiency and value for money. The current level of efficiency is demonstrated across the indirect cost categories in CAI & BSC. This is highlighted in Section 3 below.

2.2 Proposed changes for RIIO-ED1

- 2.2.1 We intend to retain our current business operating model during RIIO-ED1. Efficiency is, and will remain, one of our core values. We expect to continue operating at the forefront of operational efficiency in the areas of CAI & BSC during ED1. Included within our forecast costs for ED1 is a 1% p.a. efficiency saving in CAI & BSC. This is the annual target set by SSE plc for our 2 DNO's to achieve. Our approach to efficiency and examples of efficiency improvements we have delivered are contained within our [Efficiency paper](#) ('Be Efficient'). In conjunction with assessing operational efficiencies we have considered the impact of additional workload, future business requirements and regulatory deliverables that will occur during the ED1 period. These additional costs have been factored into our expenditure plans and the changes to current levels of expenditure are documented and justified within this paper.
- 2.2.2 Below is a summary of our actual and forecast expenditure for the RIIO ED1 period on an annual average basis, compared against our forecast DPCR5 expenditure on the same annualised basis. The detailed commentary and justification for the forecast and the movement from DPCR5 are contained within Section 3 of this paper.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

SHEPD	Cost Category	RIIO ED1 Forecast Annual Costs £m	DPCR 5 Annual Expenditure £m	(Inc) / Dec
	Closely Associated Indirects	31	27	(4)
Business Support Costs	18	18	0	
Non Op Capex	6	5	0	
Total Expenditure (£m)	56	51	(5)	

SEPD	Cost Category	RIIO ED1 Forecast Annual Costs £m	DRCR 5 Expenditure £m	(Inc) / Dec
	Closely Associated Indirects	60	54	(6)
Business Support Costs	27	26	(1)	
Non Op Capex	12	9	(3)	
Total Expenditure (£m)	99	90	(9)	

We will go onto explain the rationale for these increases / decreases in the sections below, but in summary the main reasons for the increases are:-

SHEPD	(Inc) / Dec
Designers & Project Managers for the West Coast of Scotland WSC project	(0.90)
Designers, Project Managers, team managers for increased ED1 Connections incl DG expenditure	(1.01)
Designers, Project Managers, team managers for Black Start, submarine cable replacement ED1 capex	(0.80)
Wayleaves increases during DPCR5, full effect in ED1	(0.40)
Customers Service staff & systems, incl '10/10 Programme'	(0.31)
IT staff, support & maintenance for new systems	(0.72)

SEPD	(Inc) / Dec
Designers, Project Managers, team managers for increased ED1 Connections incl DG expenditure	(0.50)
Customers Service staff & systems, incl '10/10 Programme'	(0.58)
Designers, Project Managers, team managers & transport for increased Network Investment spend	(1.34)
Wayleaves increases during DPCR5, full effect in ED1	(0.60)
Increased Workforce renewal spend	(1.04)
IT staff, support & maint for new systems	(1.41)
Private Mobile Radio	(0.90)

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

2.2.3 We have also compared our ED1 forecast against the DPCR5 allowances for each of the main sections. This shows that our ED1 forecast expenditure is significantly lower than the DPCR5 allowances. SEPD is 12.5% lower and SHEPD is 8% lower.

SHEPD	Cost Category	RIIO ED1 Forecast Costs £m	DPCR 5 Allowance £m	(Inc) / Dec
	Closely Associated Indirects	251	255	4
	Business Support Costs	144	165	21
	Non Op Capex	51	58	7
	Total Expenditure (£m)	446	478	32

SEPD	Cost Category	RIIO ED1 Forecast Costs £m	DPCR 5 Allowance £m	(Inc) / Dec
	Closely Associated Indirects	480	527	47
	Business Support Costs	220	270	50
	Non Op Capex	95	99	4
	Total Expenditure (£m)	795	896	101

3 ED1 Forecast & Assessment of Current Efficiency –

Indirect Costs

In this section we will demonstrate the current level of performance and relative efficiency of both SEPD & SHEPD. In addition we will document the changes in absolute costs that we forecast to incur over the ED1 period.

In the analysis the regression graphs which have been used to convey SHEPD and SEPD's relative efficiency have been calculated using the data within the disaggregated cost model designed by Western Power Distribution (WPD) and subsequently owned and used by Ofgem. This model has been discussed in detail during the past 18 months as part of the joint Ofgem & DNO Cost Assessment Working Group (CAWG). Our views on the relevant cost assessment models being considered for use during the ED1 process are contained within our Efficiency paper ('Be Efficient').

We have taken the actual Gross Costs incurred so far within DPCR5, 2010/11 and 2011/12, for each activity against named cost drivers contained in the model, without any amendments of the data by ourselves. The rationale for using this data / drivers is that these results could be easily replicated by Ofgem and other DNO's, and the costs are unaffected by different companies Connections Indirects allocation policy. These results are noted in the SEPD column and the SHEPD column 'SHEPD Unadjusted'.

In the 'SHEPD Adjusted' column we have deducted costs that we believe are in excess of those borne by other DNO's by virtue of the geographic, demographic and network specific factors associated in operating in the North of Scotland. The sparsity factors faced by SHEPD means that, as well as other network specific direct costs SHEPD incurs, it incurs additional indirect costs in the categories of EMCS, Vehicles & Transport, Property and IT that would not be incurred by a typical UK DNO. The justification for excluding these costs from comparative analysis with other DNO's is contained within our <http://www.yourfutureenergy.network.co.uk/RF2014.pdf>. In summary we believe that we employ more staff, occupy more properties, incur more transport and IT costs entirely because of our location and the sparsity factors. We believe that these costs require to be "normalised" before a meaningful comparative assessment of efficiency can be obtained.

We have used the individual company notations within the disaggregated model graphs, with Scottish Hydro Electric Power Distribution shown as **SSEH** and Southern Electric Power Distribution shown as **SSES**, and for ease of identification we have coloured SSEH and SSES in blue to differentiate our companies from the remaining DNO's.

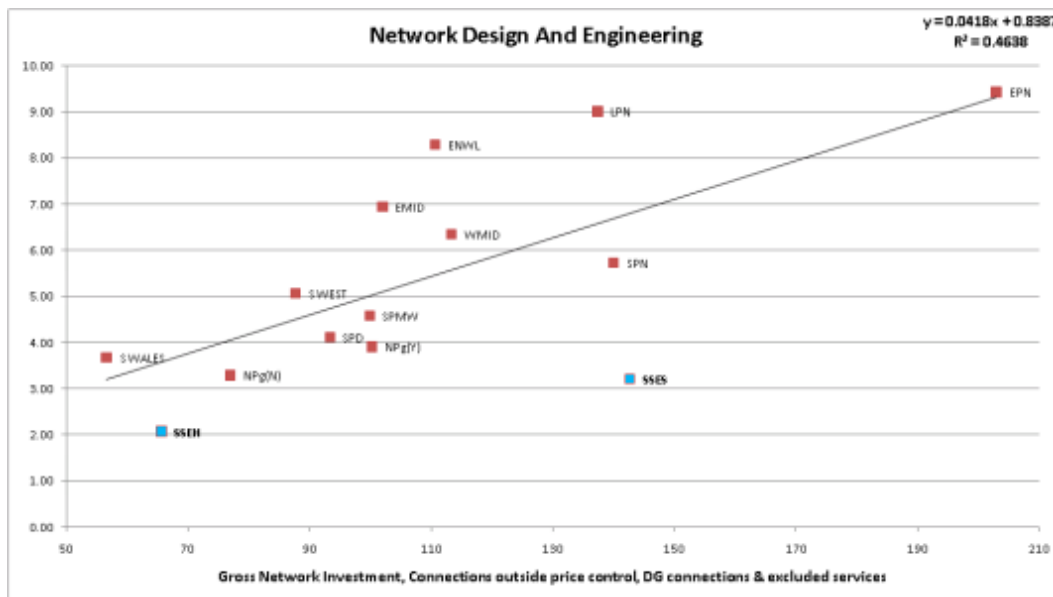
Using the costs drivers agreed by the majority of DNO's during April 2013 in the CAWG and in response to a question from Ofgem, the efficiency rankings for each category of costs so far during DPCR5 for SEPD's DNO's, across all 14 companies, were:-

Closely Associated Indirects

Activity	SHEPD Unadjusted	SHEPD Adjusted	SEPD
Network Design	2	2	1
Project Management	3	3	11
EMCS	6	2	1
System Mapping	1	1	2
Control Centre	2	2	1
Call Centre	11	11	10
Stores	6	6	2
Operational training	3	3	4
Vehicles & Transport	4	3	3
Network Policy	1	1	2

Taking each activity within Closely Associated Indirect costs individually:-

Network Design



Cost Driver: Gross Network Investment, Connections, DG & Excluded Services

Efficiency

As can be seen from the graph above, SEPD is at the efficiency frontier of Network Design Costs for the 2 years of DPCR5, with SHEPD comfortably within the upper quartile range.

Cost Justification

Network Design	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	3.46	3.14	4.42	(1.28)
SEPD	4.42	4.03	4.69	(0.66)
Total	7.46	7.17	9.11	(1.94)

In 2013/14 we are spending £4.42m in SEPD and £3.46m in SHEPD. We forecast that increasing by the end of ED1 to £4.56m & £4.33m respectively. This gives an annual average ED1 expenditure of £4.69m in SEPD and £4.42 in SHEPD.

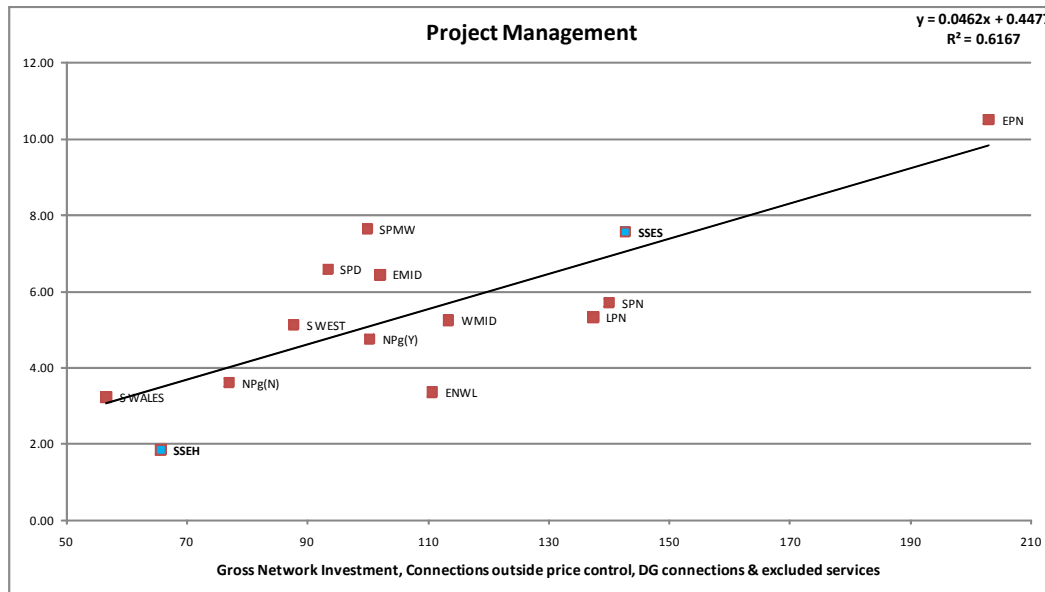
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

As our Network Investment spend has been increasing during DPCR5 there has been a requirement to increase the numbers of designers and project managers in particular to facilitate this level of spend. We are forecasting to increase headcount within Network Design by 4 FTE in SEPD at an annual cost of £0.25m and 8 FTE in SHEPD at an annual cost of £0.5m during the remainder of DPCR5 to cover both the increasing complexity of Connections projects, and large scale Capex projects. We envisage that this will still mean both SSEPD companies remaining at the forefront of operational efficiency.

During the RIIO-ED1 period, we have built in an additional 2 FTE in both SEPD and SHEPD to meet the ED1 Connections requirements and increasing levels of connections activity as the economy shows signs of recovery from the economic downturn, amounting to £0.12m p.a. in each DNO. This will also be key to meet the additional design complexity as innovative solutions and technologies become established and become “business as usual”. We are also forecasting an increase of 8 designers at a cost of £0.48m p.a. within SHEPD to cover additional Capex spend related to Worst Served Customers, Submarine Cable Replacement and Black Start expenditure. This additional capex spend amounts to approx £9.5m p.a. through the ED1 period compared to DPCR5 levels.

There are also further 2 designers associated with the increased level of Distribution Generation reinforcement in SHEPD within the ED1 period.

Project Management



Cost Driver: Gross Network Investment, Connections, DG & Excluded Services

Efficiency

As can be seen from the graph above, SHEPD is at the upper quartile of efficiency so far during DPCR5, while SEPD is seen as being less efficient than average.

We believe that this result for SEPD is in the main due to different categorisation of costs amongst DNO's between Network Design Costs, Project Management Costs and Engineering Management & Clerical Support. SEPD is the efficiency frontier company in Design and EMCS, and overall comparing the 3 categories, and we do not believe that our relatively inefficient result in this category is due to anything other than differences of classification of the Project management activity between companies.

An additional factor is that SSEPD's operating model and philosophy is to insource activities wherever possible which is a different approach to some other DNO's, some of whom outsource more Project Management and Network Design activities than ourselves, and as a result may show an element of these costs within their Direct expenditure.

Cost Justification

Project Management	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	2.45	2.32	3.15	(0.83)
SEPD	9.25	9.00	9.95	(0.95)
Total	11.70	11.32	13.10	(1.78)

During 2013/14 we will incur £9.25m in SEPD & £2.45m in SHEPD on Project management costs and we forecast that increasing by the end of ED1 to £9.68m & £3.10m respectively.

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

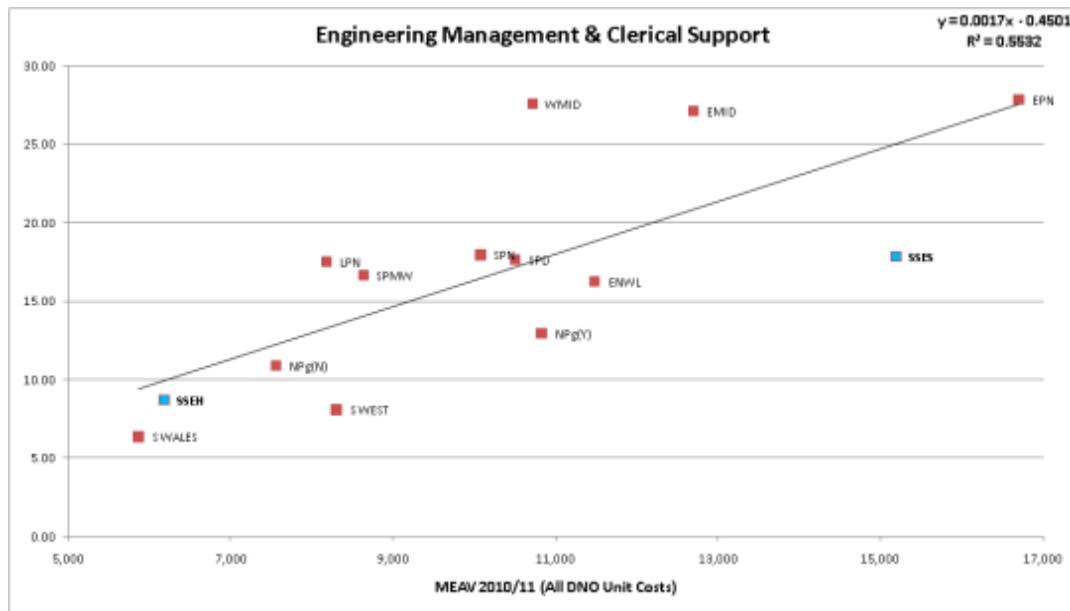
We mentioned above within the Network Design section that there has been an increase in certain indirect cost areas within DPCR5 as Network Investment spend has increased throughout the period. As a result we expect to increase headcount within Project Management by 8 FTE in SHEPD and 7 FTE in SEPD during the remainder of DPCR5, an increase of 9%, to cover current vacancies that arose during 2012/13 due to normal levels of staff turnover, the increasing number and complexity of Connections projects, and large scale Capex projects currently ongoing.

During the RIIO-ED1 period, we have built in additional staff to meet the ED1 Connections requirements of £0.2m in both SEPD and SHEPD and for the additional complexity of on site project management. We are also forecasting a further 10 Project Management staff within SHEPD to cover additional Capex spend related to Worst Served Customers, Submarine Cable Replacement and Black Start spend. There are a further 4 project managers in SHEPD associated with the increased level of Distribution Generation reinforcement within the ED1 period.

In SEPD we have included 2 additional project managers for the additional worst served customers spend, with the remaining increases in Capex and NOC spend being absorbed within the existing project management headcount.

Overall the additional ED1 requirement amounts to £0.6m p.a. across SHEPD / SEPD

EMCS



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SEPD is at the frontier of efficiency in this cost category during DPCR5, while SHEPD is more efficient than average on an unadjusted basis.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

On a regional factors adjusted basis SHEPD moves to 2nd most efficient.

As noted above, we believe that the EMCS efficiency rating for SEPD substantiates our previous assertion that the relative inefficiency of project management is in the main due to differences of categorisation between all DNO's Network Design Costs, Project Management Costs and Engineering Management & Clerical Support.

Given that we have the same business model for both of our DNO's, we would reasonably expect both SHEPD and SEPD to have very similar levels of efficiency, adjusting for the relative scale of the 2 companies. This is not the case within EMCS, and as we have explained more fully within our <http://www.yourfutureenergynetwork.co.uk/RF2014.pdf>, it is our strong belief that factors such as sparsity of customers and assets, the requirement for additional transportation costs and most importantly, the additional headcount requirement within SHEPD to cope with the above, means that SHEPD incurs costs that are not required for other DNO's. Adjusting for the impact of sparsity moves SHEPD to a ranking of number 2 just behind SEPD in terms of efficiency.

Cost Justification

EMCS	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	15.95	15.00	16.74	(1.74)
SEPD	26.15	24.91	26.87	(1.96)
Total	42.10	39.91	43.61	(3.70)

In 2013/14 we will incur £26.15m in SEPD & £15.95m in SHEPD on EMCS activities. The forecast for the end of ED1 is £26.06m & £16.31m respectively.

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

We expect to increase headcount within this area by 24 WTE (16 in SEPD & 8 in SHEPD) during the remainder of DPCR5, an increase of 4%, to cover existing vacancies currently being recruited and further clerical resource. This recruitment is to enable the change to the normal weather standard (Regulation 5) to restore customer's supplies within 12 hours of an unplanned interruption, from the previous standard of 18 hours. This change will require additional resources; however, this equates to approx 1 WTE per individual depot within our 2 DNO's.

There has been an increase within SSEPD for Stakeholder Engagement during DPCR5 in line with the RIIO principles. This amounts to 6 FTE across SHEPD and SEPD combined and this will be enduring during the RIIO ED1 period.

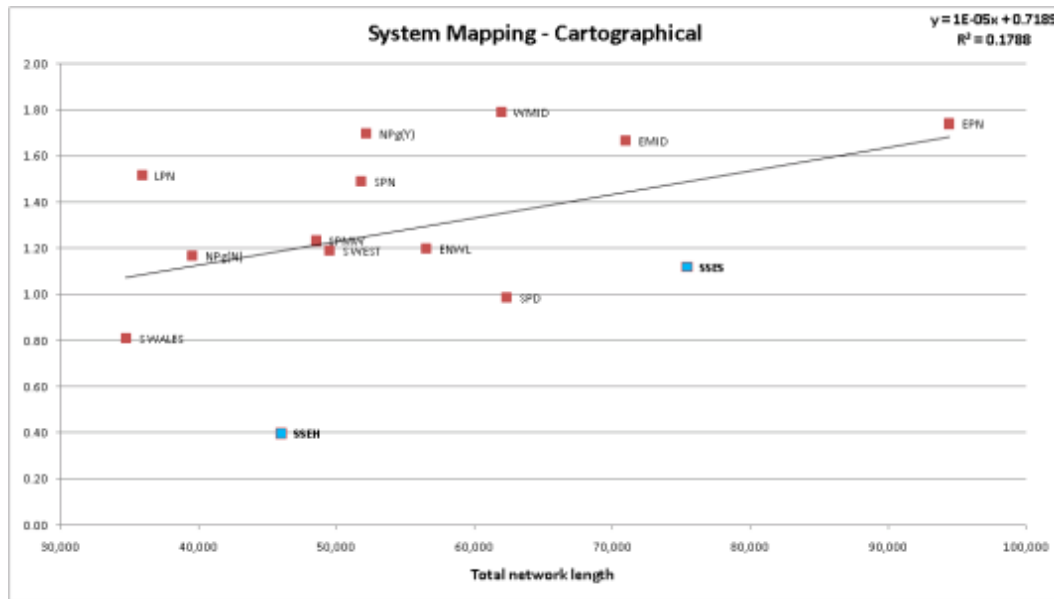
In addition to this, we are looking to further enhance our commitment to the delivery of exceptional customer service by building our Customer Relations team to provide an ongoing programme of customer service training, coaching and mentoring to ensure our service levels target exceptional customer service, or the '10/10 Programme' as it known internally within SSEPD. In addition to this we are currently setting up a 'one stop shop' for complaint handling. This will enable customers to have one point of contact should things go wrong, or if preferable to the customer, to have a local team manager on site to discuss any issues. This will require an increase of 5 WTE in SEPD and 3 WTE in SHEPD, amounting to an increase of £250k p.a. which will endure throughout the ED1 period

During the next year, we are introducing a dedicated Priority Service Register team to ensure up to date registration information and personal support for vulnerable customers. This will involve training so that we can proactively recognise and deal with individual circumstances both via our customer service staff, and face to face via our field staff and team managers. This team will also keep customer information up to date, working with 3rd parties to data share and support registered customers in the event of a power cut, and work with organisations such as Action on Hearing Loss to provide training. We are forecasting that this will require an increase of 3 WTE in SEPD and 2 WTE in SHEPD, amounting to an increase of £150k p.a. and this team will endure though the ED1 period.

As one of the largest areas for spend across our Indirect categories, EMCS costs have also increased by £0.2m in SEPD and £0.1m in SHEPD as a result of showing incremental Pension deficit payments accumulating from 2010 onwards within the relevant Direct / Indirect Totex activity. There have been increases across other activities but EMCS shows the largest variance.

While not part of the benchmarking exercise, wayleave costs sit within the EMCS activity. During 12/13 and 13/14 wayleave costs have increased considerably above inflation due to pre-agreed arrangements with the Farmers Union. We have forecast these flat in real terms over the ED1 period.

System Mapping



Cost Driver: Total Network Length

Efficiency

As can be seen from the graph above, SHEPD is at the frontier of efficiency so far during DPCR5, while SEPD is the 2nd most efficient company.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

Cost Justification

System Mapping - Cartographical	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	0.69	0.58	0.69	(0.10)
SEPD	1.27	1.25	1.28	(0.03)
Total	1.96	1.83	1.97	(0.13)

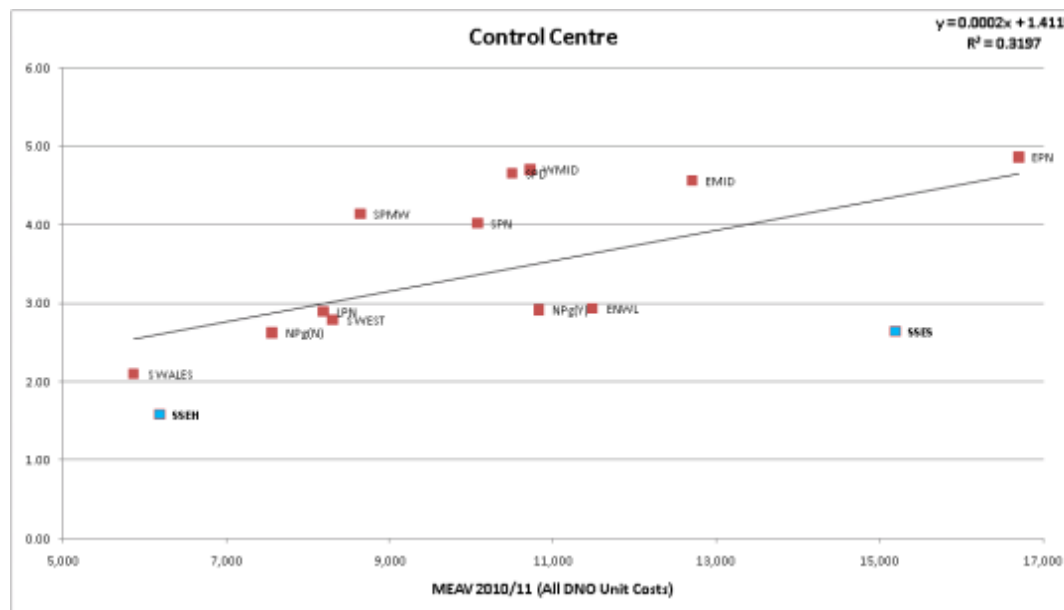
In 2013/14 we incurred £1.27m in SEPD & £0.69m in SHEPD on System Mapping. We forecast this to be £1.26m & £0.68m respectively by the end of the RIIO ED1 period.

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

We expect to increase headcount within this area by 2 WTE during the remainder of DPCR5 to cover the increasing level and complexity of Connections projects, and large scale Capex projects, and also in preparation for the enhanced ENMAC system implementation and integration.

Thereafter we have assumed no increase in staff and that any further requirements in this area will be met by efficiency gains.

Control Centre



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SEPD is at the frontier of efficiency so far during DPCR5, while SHEPD is the second most efficient DNO.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

Cost Justification

Control Centre	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	2.09	2.05	2.06	(0.01)
SEPD	3.05	3.12	3.25	(0.12)
Total	5.14	5.17	5.31	(0.14)

In 2013/14 we incurred £3.05m in SEPD & £2.09m in SHEPD on Control Centre. We forecast that increasing by the end of ED1 To £3.15m in SEPD & at £1.99m in SHEPD

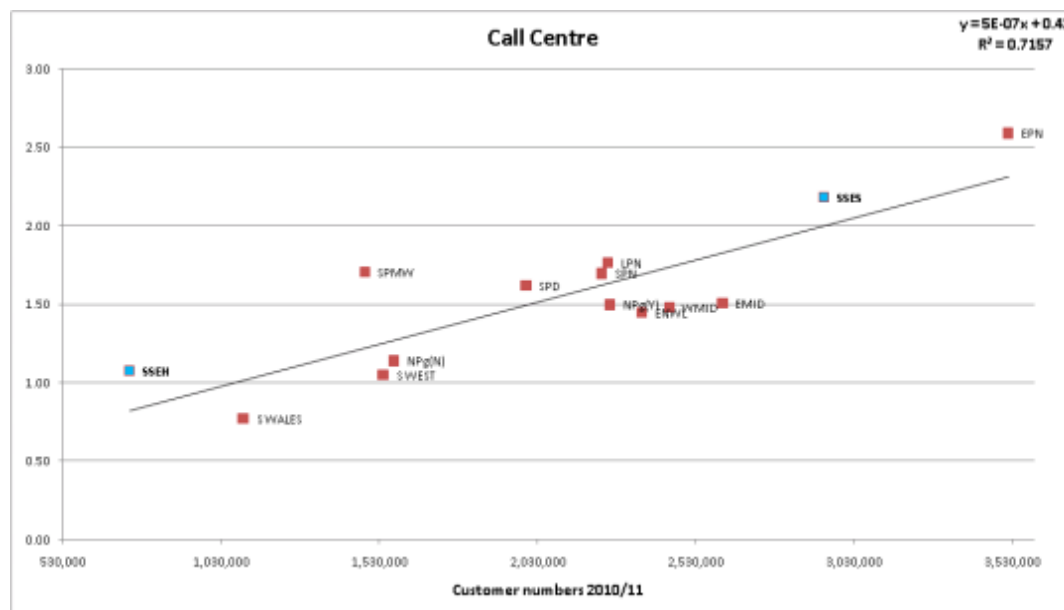
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

In the lead up to RIIO-ED1 period, we have built in an additional 4 staff to meet the requirements of the enhanced ENMAC system which will enable automatic switching schemes. These additional staff members will be key to the successful implementation and integration of the upgraded system and will be enduring for the remainder of the RIIO-ED1 period.

A further 4 are required when our Network Connectivity model is required to be updated after the smart metering rollout begins from 2015. These staff will be required to remain in post after completion of the rollout due to network complexity and to maximise the benefits from the smart metering rollout.

The additional costs for these staff are just over £0.5m p.a. and these costs are broadly offset by the ongoing efficiencies

Call Centre



Cost Driver: Customer Numbers

Efficiency

As can be seen from the graph above, both SHEPD and SEPD are both seen as being less efficient than the average DNO.

We believe that this result is due to several contributory factors. Until 2012/13, both of our call centres were entirely based on people answering the phones rather than a call answering system in the first instance. This has had an adverse affect on our 'Customer Service' traffic light in the Distribution Annual report, and during the 2013/14 year we are bringing in a call answering system to address this.

Also, SHEPD has only 750,000 customers, there is no recognition in the analysis that a significant proportion of our SHEPD costs are, in our opinion, of a fixed nature, and they will not reduce / increase directly in line with customer numbers. This is a nuance that we believe should be explored and addressed by Ofgem during the cost assessment process.

Cost Justification

Call Centre	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	1.67	1.44	1.77	(0.33)
SEPD	2.47	2.44	2.77	(0.33)
Total	4.14	3.88	4.54	(0.66)

In 2013/14 we incurred £2.47m in SEPD & £1.67m in SHEPD on Call Centre activities. We forecast that increasing by the end of ED1 to £2.7m & £1.73m respectively.

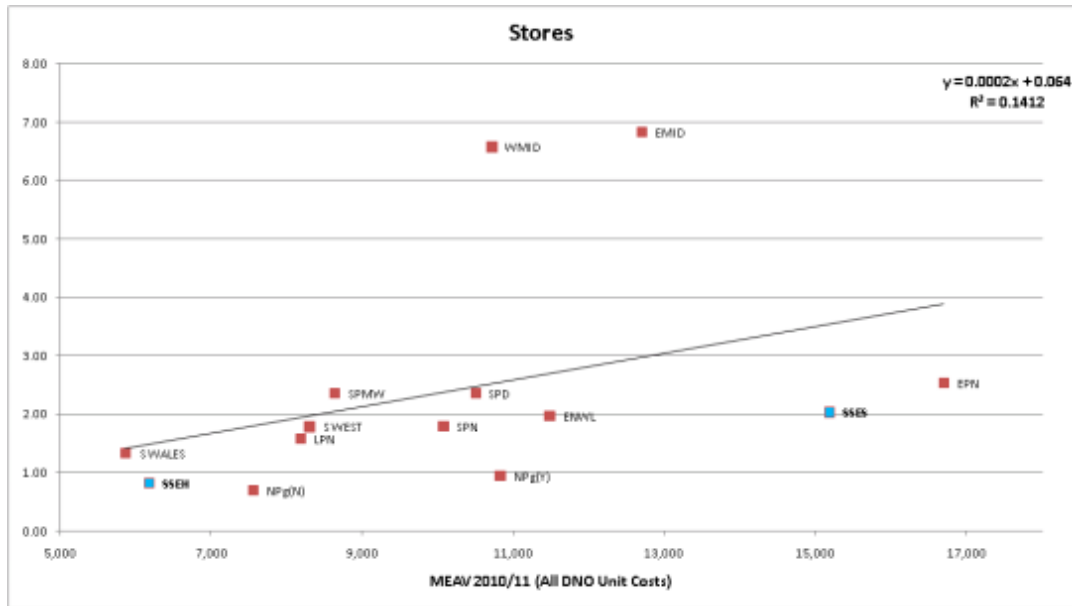
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

We expect to increase headcount within this area by 8WTE during the remainder of DPCR5, an increase of 8% to cover existing vacancies that arose during 2013/14.

Once these have been filled we anticipate any cost savings made after the implementation of our automated call answering service will offset additional costs which will be required as we target an increase to customer service activities and performance as we strive to enhance the service we offer to customers, via our '10/10 Programme'.

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

Stores



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

The graph above shows SEPD as the second most efficient company and SHEPD above average in terms of efficiency.

Cost Justification

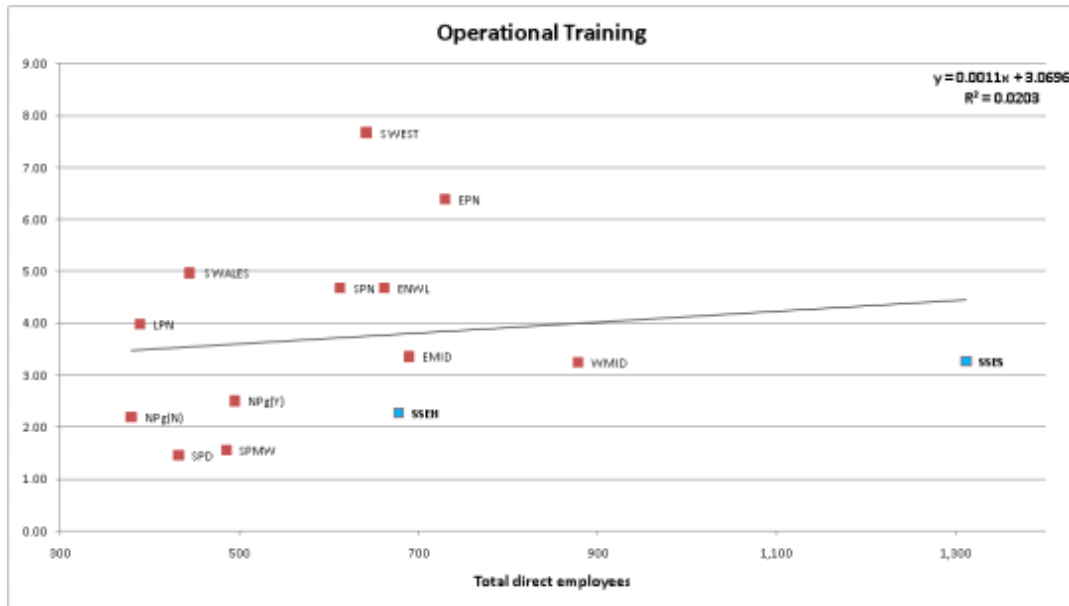
Stores	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	1.06	1.01	1.04	(0.02)
SEPD	2.26	2.26	2.32	(0.06)
Total	3.32	3.27	3.35	(0.08)

In 2013/14 we incurred costs of £2.26m in SEPD & £1.06m in SHEPD on Stores. We forecast spend to be £2.26m & £1.01m respectively by the end of ED1.

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

We have not forecast any additional costs within RIIO ED1, assuming that the additional workload will be met with efficiency gains.

Operational Training



Cost Driver: Total direct employees

Efficiency

The graph above shows both SEPD and SHEPD in the upper quartile of efficient companies for the HR & Non Operational Training activity. This activity includes the Work Force Renewal forecast.

The graph above highlights one of the fundamental differences between SHEPD and SEPD and the majority of the other DNO's in that we tend to in source staff wherever possible, leading to SEPD having approx 1.5 times the amount of direct employees, as the next highest DNO. SHEPD has the 5th highest number of direct staff in spite of the fact that it amongst the smallest DNO. This does not allow for economies of scale in terms of operational training.

A further reason why SEPD and SHEPD are not the Frontier companies in this activity is that we have fully utilised our DPCR5 WFR allowance for the first 2 years, although it is worth noting that our allowance was lower than the majority of other companies for this activity. We are forecasting to fully utilise our DPCR5 allowance, and to continue this trend through the RIIO ED1 period.

Cost Justification

Operational Training	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	3.27	2.97	3.17	(0.20)
SEPD	4.69	4.27	5.30	(1.03)
Total	7.96	7.24	8.47	(1.23)

In 2013/14 we incurred £4.69m in SEPD & £3.27m in SHEPD on Operational Training, including Workforce Renewal. We forecast that this will on average be £5.30m and £3.17m

respectively during RIIO ED1. Due to the phasing of retirees & recruitment, this is not a linear spend but as noted in section 1 above we have incorporated a 1% p.a. efficiency saving within this category.

We have used the model developed in collaboration with Energy and Utility Skills and all DNO's, which not only provides future workforce requirements but also anticipated expenditure. Factors such as attrition levels, average retirement age, recruitment costs and recruitment processes are modelled to provide a guide on workforce requirements for the upcoming price control periods. Taking into consideration the current age profile for SSEPD it is clear that the requirements to not only maintain our current WTE level but to also include capacity for growth will be challenging throughout RIIO ED1 and ED2. With calculated attrition levels, this will result in a requirement to recruit 1063 operational staff during the ED1 period, 401 in SHEPD and 662 in SEPD to maintain current workforce levels alone.

In addition there are some additional activities that will become core activities that SSEPD will be required to undertake during the coming price control periods:

- Smart Metering rollout
- Smart Metering post roll out (BAU)
- Low Carbon Technology uptake
- Electric vehicle connections
- Photovoltaic's
- Heat Pumps
- Large scale wind turbines

Growth will be required to allow the continued application of new technologies where skill sets will range from Designers to Telecoms experts to additional Craftsmen. SSEPD anticipate the impact on the existing electrical network to be small in RIIO ED1 however as progress is made through the coming price control period into RIIO ED2 SSEPD see the demand grow, which will inevitably require subsequent workforce growth.

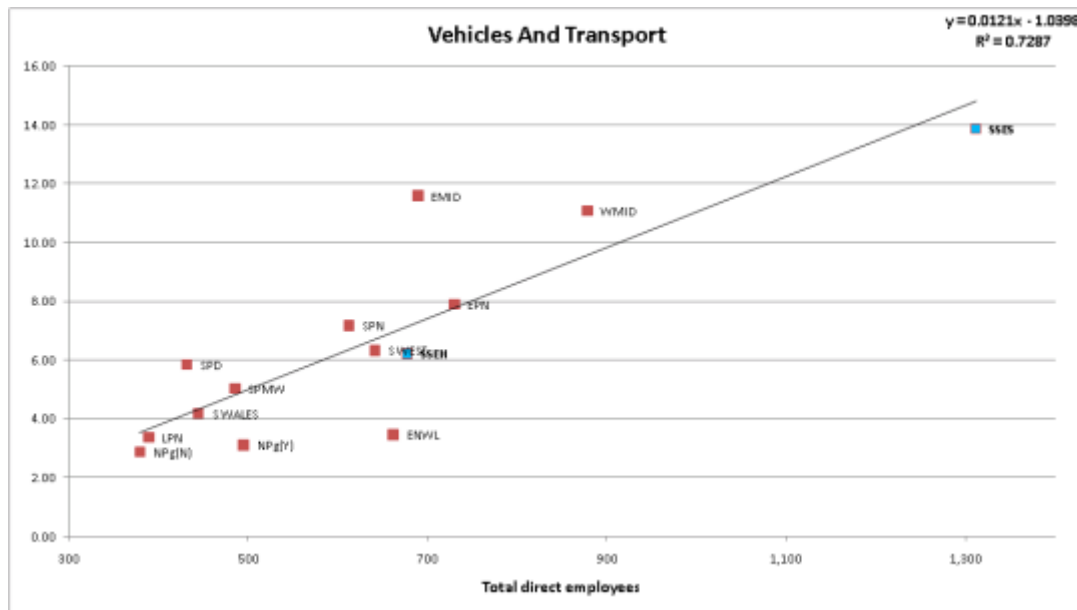
As reported by EU Skills, DNO's face a significant challenge to meet the workforce requirements over the next two decades. By the end of RIIO-ED1, all DNO's and their contractors are expected to lose 9,708 employees which is an equivalent to 47% of the current workforce. Focussing solely on the total UK DNO's workforce, 26% are currently aged 53 years or more.

These factors are closely replicated within both SSEPD licence areas. SHEPD showing 28.3% and SEPD showing 26.12% of the workforce aged 53 years or over.

Taking into consideration the outputs from the EU Skills modelling tool and historic financial performance, the anticipated required level of expenditure to maintain current WTE levels alone will be £17.89 million for SHEPD and £32.21m for SEPD. These additional costs include the training, recruitment and cost of initial training period of the replacement staff,

In addition to the above, the required level of allowance for operational training is an additional £0.2m p.a. for both SHEPD and SEPD combined through the ED1 period.

Vehicles and Transport



Cost Driver: Total direct employees Efficiency

The graph above shows both our DNO's being within the upper quartile of efficiency. SEPD as the 3rd most efficient company and SHEPD as the 4th most efficient company for the Vehicles & Transport activity.

SSEPD's operating model and philosophy is to in source activities wherever possible. Our DNO's utilise SSE Contracting Ltd to provide most of our excavation and reinstatement activities. Many other DNO's outsource these types of activity and therefore, these costs, including the Transport & Vehicle element, will be reported within the appropriate direct activity being undertaken. Due to the historic RRP & current RIGs reporting rules all of SSE Contracting Vehicles and Transport costs are included within this indirect cost category. To summarise:

- A large percentage of vehicles and transport spend originates within SSE Contracting Ltd - Approx 50% of Vehicle costs during 2011/12.
- Approx 50% of this SSE Contracting Limited spend is Network Investment related
 - £1.5M SHEPD 11/12
 - £3.5M SEPD 11/12
 - NOC related SEC Ltd spend 11/12 - £1.1M SHEPD ; £1.7M SEPD
- The majority of other DNO's similar spend on these activities remains within NI/NOC

SSEPD are supportive of allocating Vehicle & Transport spend across Direct activities.

Cost Justification

Vehicles & Transport	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	6.57	6.46	6.46	0.00
SEPD	15.39	14.57	15.38	(0.81)
Total	21.96	21.03	21.84	(0.81)

In 2013/14 we incurred £15.39m in SEPD & £6.57m in SHEPD on Vehicles and Transport costs. We forecast that increasing by the end of ED1 to £15.05m in SEPD & £6.32m in SHEPD.

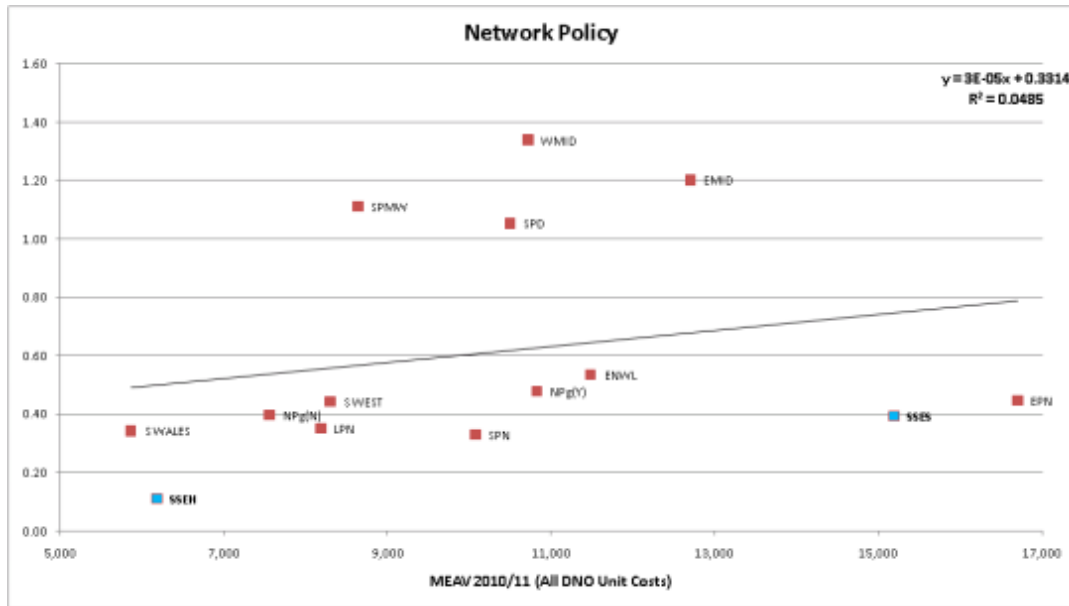
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

Due to the move to 12 hour supply restoration targets both SHEPD and SEPD are anticipating additional vehicle costs from 13/14 onwards. The current method of managing supply restoration will be reviewed in the first quarter of 2013 to identify and implement best practice in order to achieve the new target. One common issue that we currently have is movement of both small generation and NRSWA signage to site. As this signage has got bulkier over time and payload capacities have reduced to accommodate technological advancements that add weight to the vehicle i.e. stop/start technology. This has led to multiple trips to site to get the full kit onto site. The current best solution is to operate a second vehicle in order to move the kit. This is currently not being operated in every depot, but will have to be implemented across all depots at an increase of 2 vehicles per depot in order to reduce fuel from making multiple trips and delays in restoring supplies. This will add £100k to vehicle cost annually in the SEPD area and £60k annually to SHEPD costs.

There is also an increase to vehicle costs as a result of the additional project managers forecast with the additional capex and DG expenditure in RIIO-ED1, amounting to a further £180k across our 2 DNO's.

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

Network Policy



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SHEPD is the efficiency frontier company for this activity while SEPD is the second most efficient company.

Cost Justification

Network Policy	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	0.26	0.20	0.26	(0.06)
SEPD	0.92	0.68	0.91	(0.23)
Total	1.18	0.88	1.17	(0.29)

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

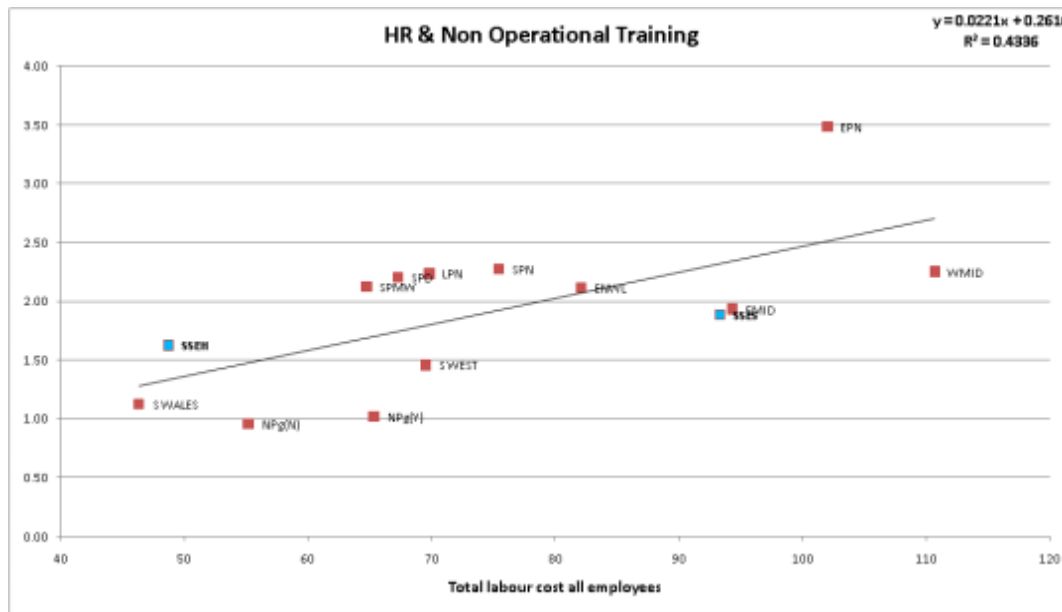
Our current spend is £0.92m in SEPD and £0.26m in SHEPD in Network Policy. We are forecasting no increases to costs within this area for the remainder of DPCR5 or into ED1. This will mean that the costs within SHEPD will remain at £0.25m p.a. and the costs within SEPD will remain at £0.92m p.a. The only cost changes incorporate the 1% p.a. efficiency saving as noted above.

Business Support Costs

Activity	SHEPD Unadjusted	SHEPD Adjusted	SEPD
HR & Non Operational Training	9	9	3
Finance & Regulation	2	2	1
CEO, etc	6	6	1
IT & Telecoms	5	4	1
Property Mgmt	6	4	1

Taking each one of these activities in turn:-

HR & Non Operational Training



Cost Driver: Total labour cost all employees

Efficiency

As can be seen from the graph above, SEPD is within the efficiency upper quartile for this activity while SHEPD is slightly below average efficiency using this cost driver.

SHEPD efficiency ranking suffers from the relative scale of the company against the other DNO's. As can be seen from the graph, SHEPD has the second lowest spend in the industry on Total Labour costs, as one might expect given the size of SHEPD. We believe there is a large element of fixed costs in a number of the Business Support costs categories, including HR and non-operational training. These fixed costs would include training facilities and a core number of HR staff irrespective of total staff numbers.

Within SSE there is a continued focus on cost levels within the business and BSC are no exception. We would expect these costs where possible to reduce from the early years of

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

DPCR5 as SSE increases in size and all parts of the group benefit from economies of scale, and due to corporate initiatives such as the Value for Money exercise.

Cost Justification

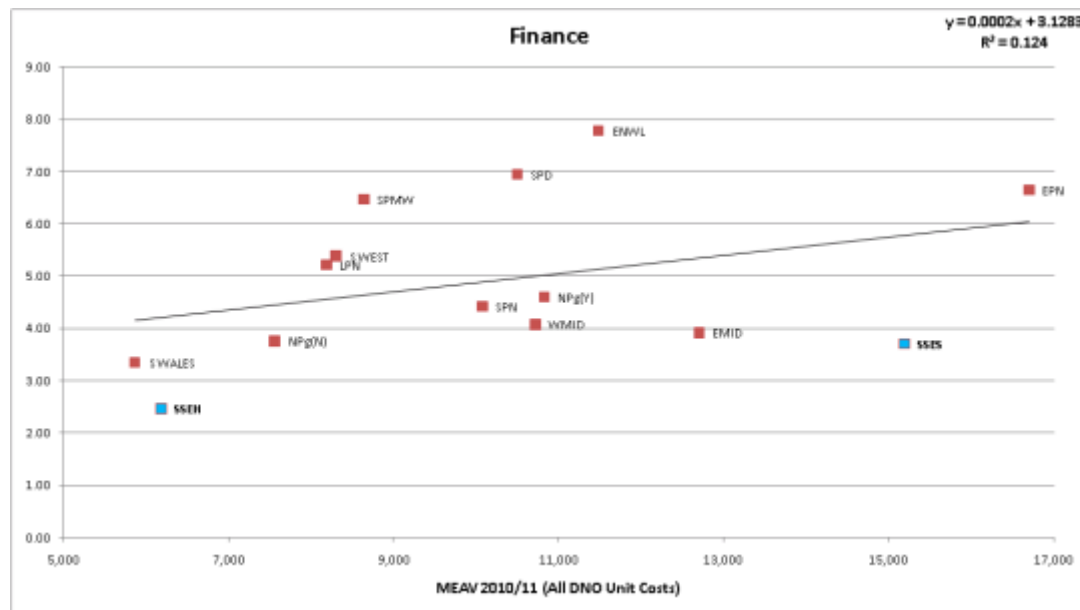
HR & Non-operational Training	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	0.89	1.25	0.87	0.38
SEPD	1.55	1.72	1.58	0.14
Total	2.44	2.97	2.45	0.52

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

In 2013/14 we incurred £1.55m in SEPD & £0.89m in SHEPD on HR & non op training. We forecast these costs to be at £1.53m & £0.85m respectively by the end of ED1.

We have not forecast any additional costs within RIIO ED1, with the only change the incorporation of the efficiency saving.

Finance & Regulation



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SEPD is at the efficiency frontier for this activity while SHEPD is the 2nd most efficient company.

This efficiency ranking reinforces the SSEPD efficiency strategy of minimising costs wherever possible, while still maintaining outputs and delivery targets.

This activity covers a numbers of different areas, such as finance, regulation, procurement and insurance costs.

Cost Justification

Finance & Regulation	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	5.29	5.27	5.27	0.01
SEPD	9.51	9.39	9.64	(0.25)
Total	14.80	14.66	14.90	(0.24)

In 2013/14 the Gross costs were £9.51m for SEPD and £5.29m for SHEPD for Finance & Regulation costs. We forecast these costs to be at £9.51m & £5.20m respectively by the end of ED1.

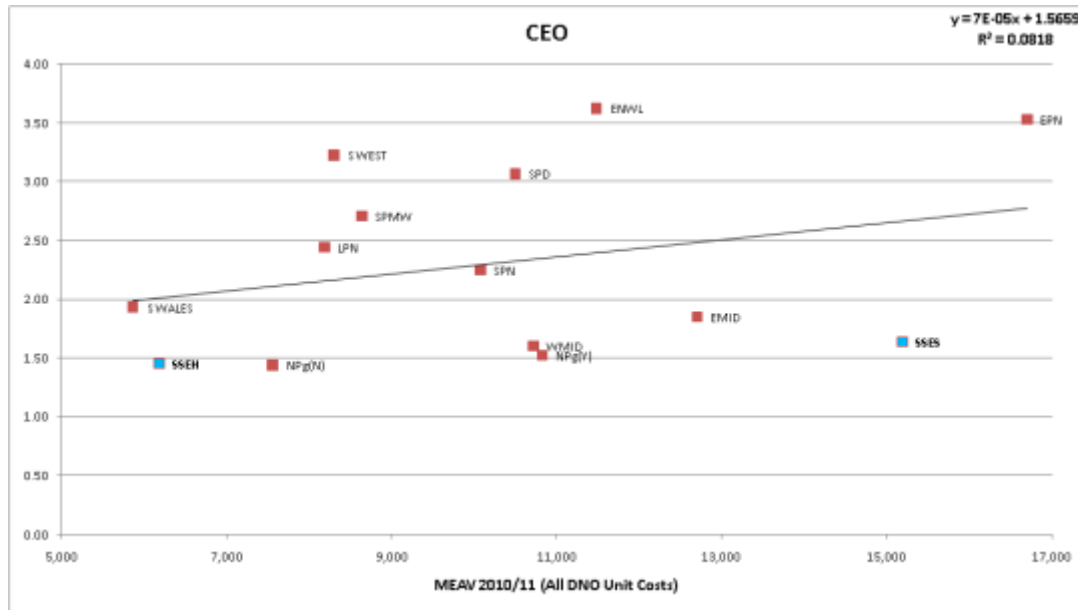
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category with the exception of insurance costs noted below.

Taking each area in turn:-

- Finance** Looking at external benchmarking measures both of our DNO's perform well here with a £ per employee of £567 in SEPD and £832 in SHEPD. This is considerably less than most benchmarked companies similar finance functions, where UK Government statistics quote a well run large organisation as having a £ per employee cost to serve of £1,100 as quoted in the Cabinet Office Efficiency & Reform Group's study 'Back Office Benchmark Information 2010'. We are forecasting a further 1 FTE in both SHEPD and SEPD amounting to a further £0.05m per DNO annually from 2013/14 to deal with the increasingly complex Regulatory framework (i.e. the Annual iteration process) and Statutory accounting developments (i.e. the move to IFRS) etc.
- Regulation** This has been an area of increasing focus during DPCR5, and we expect our costs to rise slightly due to the increased focus on regulatory compliance work required for ED1 and the expectation that the regulatory environment will become increasingly complex as we approach ED2,. We are forecasting further cost increases at the beginning of the ED1 period, amounting to 2 additional staff per DNO p.a. amounting to a cost of £0.08m per DNO p.a. to help manage the increased regulatory interface.
- Procurement** We would expect Procurement costs to continue at the same levels as in DPCR5 albeit with the 1% efficiency saving applied.
- Insurance** We do not believe that a 1% efficiency saving is achievable in Insurance costs. Our experience in DPCR5 is that due to the current economic environment and factors impacting on insurance premiums, such as the increased threat of terrorism, the increased level of PI and EI liability, we have seen Insurance Premiums increase by 10% above RPI so far during DPCR5. We believe there will continue to be upward pressure on insurance premiums, however within our forecast we have assumed the costs will remain as 2012/13 in real terms.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

CEO



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SEPD is at the efficiency frontier for this activity while SHEPD is just outside the efficiency upper quartile.

SHEPD efficiency ranking suffers from the relative scale of the company against the other DNO's. As can be seen from the graph, SHEPD has the lowest industry spend in this activity, but due to the relative size performs less well in a regression. As we have noted elsewhere in the document we would argue that a large element of this activity, and with other Business Support Cost activities, are 'fixed' costs. While SSEPD would always look to put into practice its efficiency strategy of minimising costs wherever possible, while still maintaining outputs and delivery targets, there are certain levels of expenditure that must be borne no matter the size of the organisation. This is an element of cost assessment that we would look to Ofgem to further explore during its benchmarking / regression analysis. That element aside though this efficiency ranking reinforces the SSEPD efficiency strategy of minimising costs wherever possible, while still maintaining outputs and delivering targets.

Cost Justification

CEO	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	1.35	1.52	1.32	0.20
SEPD	2.05	1.98	2.08	(0.10)
Total	3.40	3.50	3.40	0.10

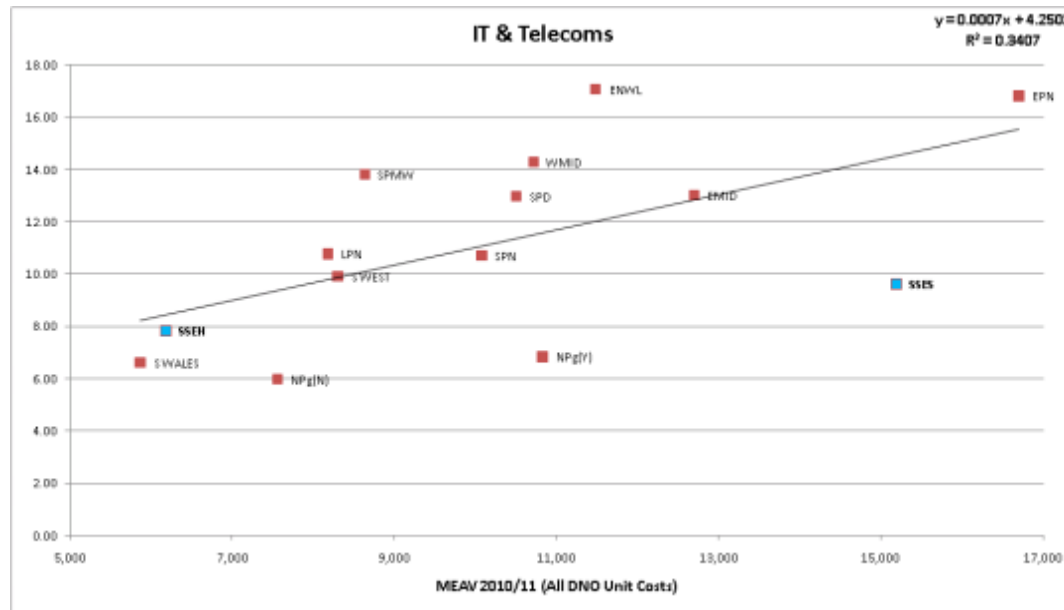
As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

In 2013/14 we incurred £2.05m in SEPD & £1.35m in SHEPD on the CEO activity. We forecast these costs to be at £2.02m & £1.29m respectively by the end of ED1.

We have assumed that we will be able to meet all requirements in this area without the need for any additional headcount during ED1.

IT & Telecoms



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

While most of the DNO's, and Ofgem, agree that IT & Telecoms, and the following category Property management, are not suited to setting allowances using regressions, for indicative purposes SSEPD think it useful to provide such a regression bases on MEAV to illustrate the full suite of Business Support costs, and the relative performance of both SHEPD and SEPD. SSEPD agree with Ofgem that these areas are best assessed using external analysts performing a variety of evaluation techniques.

The graph above shows SEPD as being the most efficient DNO while SHEPD is 5th on an unadjusted basis. On the Regional Factors adjusted basis this moves SHEPD to 4th. SHEPD also suffers from the fact there is a significant level of fixed costs in this area, as has been mentioned above.

Cost Justification

IT & Telecoms	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	7.29	7.74	8.49	(0.75)
SEPD	10.28	10.09	12.47	(2.38)
Total	17.57	17.83	20.96	(3.13)

In 2013/14 we incurred £10.28m in SEPD & £7.29m in SHEPD on IT & Telecoms. We forecast these costs to be at £12.68m & £8.56m respectively by the end of ED1.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

In order to be able to carry out the additional work and continue to provide a “business as usual” service (including implementation of the software “evergreen” policy) it will be necessary to recruit more skilled Project and Support staff to actually do the work and to support the systems in the longer term.

It is estimated that the following additional resources will be needed to cope with the workload of this programme:-

- 3 Project Managers
- 4 Project Engineers
- 1 Project Administrator
- 3 Support Engineers

These will be phased over the ED1 period, although the intention is to have new staff in post before the bulk of the projects start in order that they can be fully trained, up to speed and ready to go once the projects actually start.

With all computer software there is an ongoing yearly support and maintenance payment that has to be made. As well as providing 24 hour support from the supplier this payment also ensures that software upgrades are available in line with the SSEPD “evergreen” policy. Using the project software installation programme more fully discussed in our ‘Operational Applications Supporting Paper’ document and cost of existing software support costs, the forecast costs for these yearly payments are as follows:-

System	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	Total
DMS (including Reports, Mobile & Power Analysis)	£200,000	£200,000	£300,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£3,850,000
Data Historian	£50,000	£50,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£900,000
OMS			£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£1,600,000
Integration software			£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£800,000
Total	£250,000	£250,000	£700,000	£850,000	£850,000	£850,000	£850,000	£850,000	£850,000	£850,000	£7,150,000

There are a number IT projects in currently being worked on for the connections part of the business, which are included within the Gross costs element but which are ‘Allocated to Connections’ at the Net cost stage. These include:-

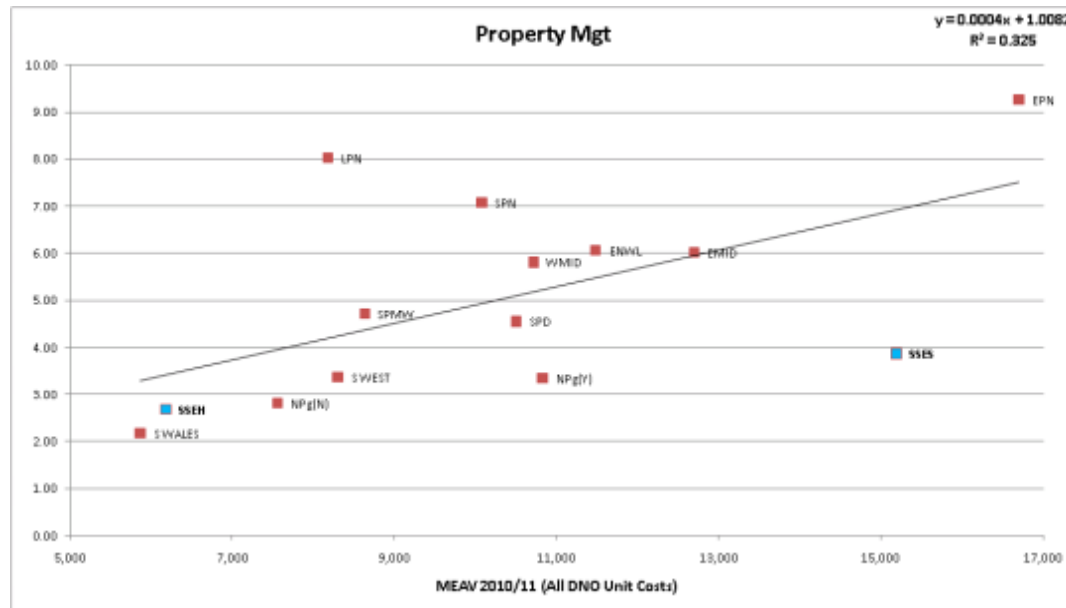
- i) LV Design tool that uses the LCNF project Thames Valley Vision project learning
- ii) Data capture and presentation tool that provides Smart Data for designers/planners (this to work hand-in-hand with i) above)
- iii) Mobile Working - for site quoting, and for team managers delivering projects
- iv) Automatic Network management system – as developed on our Orkney NINES project, involving integration into ENMAC.
- v) New GIS - to facilitate heat maps and customer information and well as improve our quote offering and allow easier final record keeping

There are also additional corporate IT costs factored in from 2012/13 levels due to the fact that we fully installed our Back Office Procure to Pay Oracle based system, Harmony, which is considerably more expensive than our previous legacy systems from an ongoing IT support perspective.

Scottish & Southern Electric Power Distribution RIIO-ED1
 Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
 Capex
 Supporting Paper

We have assumed the same level of Telecoms costs as in 2012/13 with the exception of additional costs in the SEPD area as we are currently rolling out Private Mobile Radios as currently runs in SHEPD. This will mean greater reliability and resilience during storm conditions, and is integral to the Black start capability. We have forecast this at £0.9m p.a., 33% less than we currently pay in our SHEPD area.

Property Mgt



Cost Driver: MEAV 2010/11 (All DNO Unit Costs)

Efficiency

As can be seen from the graph above, SEPD is at the efficiency frontier for this activity while SHEPD is more efficient than the average DNO. Given that SHEPD requires 34 properties including small sub-depots, to efficiently function in the North of Scotland, while SEPD only requires 24 properties, we feel it is reasonable to exclude costs as detailed in our 'Regional Factors Supporting Paper' of £0.17m p.a. This adjusted figure would show SHEPD as an upper quartile company using this measure.

Cost Justification

Property Mgt	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	3.37	3.13	3.37	(0.24)
SEPD	4.35	4.25	4.40	(0.15)
Total	7.72	7.38	7.76	(0.38)

In 2013/14 we incurred £4.35m in SEPD & £3.37m in SHEPD on Property costs. We forecast these costs to be at £4.35m & £3.33m respectively by the end of ED1.

As noted in section 1 above we have incorporated a 1% p.a. efficiency saving on controllable costs within this category.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

While it would appear that we have not forecast to reduce costs in this area across the ED1 period, we have incorporated increased costs in SEPD for the proposed new depots at New Forest and Aldershot that we have included in our Non-operational capex forecast, as well as the proposed extension to the existing operational training facilities at Thatcham. The depot upgrades are required to meet modern accommodation standards, as well increasing operational requirements in order to bring these depots in line with the other SEPD depots. This is an ongoing policy to upgrade our depot stock that has taken place from 2007/08 onwards. This programme will be completed during ED1. We anticipate that these additional costs will amount to £0.3m p.a. in SEPD given the additional area forecast.

In our SHEPD area, we forecast increased rental costs for our new Dundee depot which should become operational in the final year of DPCR5, and also the proposed extension to our existing operational training facilities at the Perth depot to be able to cope with the increasing level of training required from the Workforce Renewal programme as detailed in the Operational training section above. This amounts to an increased cost of £0.2m p.a.

Thereafter there are no additional cost factors within the Property section of our indirect cost forecast.

4 Non Operational Capex

Non Op Capex	13/14 Gross Costs (£m)	DPCR5 Annual Costs (£m)	RIIO ED1 Forecast Annual (£m)	(Inc) / Dec
SHEPD	6.29	5.70	6.41	(0.71)
SEPD	10.47	9.46	11.89	(2.43)
Total	16.76	15.16	18.30	(3.14)

This section includes the cost categories, Vehicles, Small Tools & Equipment, Non Operational Property, and IT & Telecoms.

Taking each of these areas in turn:-

Vehicles

In 2011, SSEPD entered into an agreement with Lex Leasing to lease all vehicles less than 6 Tonnes from them, and as such we have not included a forecast for any capital expenditure for these types of vehicles.

We retained the ownership all vehicles >6T, such as Unimogs, dumper trucks and tipper lorries. We have included our SSE Transport departments rolling 5 year forecast replacement programme for these costs, and this has been rolled forward at an average level thereafter.

This means that in 2012/13 we incurred £3.35m of replacement vehicle expenditure in our SEPD area, and £0.99m in our SHEPD area. The average annual forecast over the ED1 period is £3.14m for SEPD and £1.14m for the SHEPD area.

Small Tools & Equipment

This area of expenditure includes and we have forecast this at the average of our DPCR5 expenditure of £2.90m in SEPD and £0.95m in SHEPD.

IT & Telecoms

We incur approx £0.75m to £1.0m p.a. of costs on routine IT hardware such as servers, blades and PC, laptop, printer replacement, etc. This will continue at the same level during ED1.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

In addition to this we have identified a number of specific IT projects that during the RIIO-ED1 period that will be required to incur expenditure:-

Description	Total
Staff Safety Information	£550,000
OMS and DMS work dispatch app	£460,000
OMS and DMS data App	£550,000
Project Management System app	£350,000
Asset Register apps	£1,060,000
Navigational apps	£400,000
Field Data Capture app	£275,000
Public safety information	£400,000
Outage reporting from OMS	£1,190,000
Project Management System web services	£700,000
GIS interface for customers	£990,000
Asset Register Web Services	£500,000
Digital Improvements	£750,000
Vulnerable Customers information services	£240,000
Data improvement initiative	£1,600,000
Network Connectivity Model and Network Management System	£3,200,000
Enterprise Service Bus	£3,900,000
Distribution Performance Center	£1,425,000
Business Intelligence for Operational and Regulatory Reports	£4,300,000
Social obligations initiatives	£443,500
Control room security	£450,000
Cyber Security ISMS	£450,000
Network Visualisation	£475,000
ANM - generator constraint management	£300,000
Advanced Distribution Automation	£325,000
LV Monitoring and Modelling	£150,000
EV charging infrastructure	£50,000
Automatic Demand Response	£125,000
Reporting tools for incident reporting database	£800,000

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op
Capex
Supporting Paper

Description	Total
Asset Register system development	£1,425,000
Distribution Billing System development	£1,925,000
Reporting tools for Asset Register	£350,000
Development of Complaints Database	£500,000
LV Design Tools	£800,000
Develop PMS functionality	£1,250,000
GIS upgrade	£2,000,000
Drawing Tools and Repository	£1,250,000
Mobility devices and infrastructure (apps above)	£1,250,000
Work Force Management	£2,700,000
Safety apps & reporting	£500,000
Reporting tools for Finance System	£1,000,000
Customer Service systems	£3,775,000
	£45,133,500

We have provided further details of the IT non operational capex forecast in our ‘SSEPD Overall ICT Strategy Supporting Paper’ paper but the main areas where we will incur expenditure are noted below:

- Development of the Asset Register to further improve asset HI and CI. For example obtaining information and updates automatically from remote devices, integrate SCADA Data with Asset Register data and further developing the reporting capabilities from the Asset Register.
- Our Back Office Support Systems (Harmony) was implemented in 2012/13. This was a vanilla implementation and there is a requirement to develop further the reporting tools and capabilities of the system to improve upon and fully satisfy business requirements.
- The functionality and capabilities of our connections management and quotation system (PROMIS) requires to be updated and will be required to meet the developing requirements of the connections market during the ED1 period.
- There are a number of system upgrades and implementations required within the Customer Service area, such as the integration of OMS and Smart metering data to improve the management of vulnerable customers, and a number of developments to our existing Complaints Database to improve the initial logging, the progress and reporting, of customer complaints.
- Network Connectivity model and network management system. more in-depth LV and Common Information Model aligned network data coupled with a Network connectivity model, which will enable SSEPD to plan, operate, maintain and repair networks more efficiently. This will also help to incorporate smart metering data for a more engaging customer service and enabling active end-point assets and outage operations.

Property

We are forecasting 2 new depots in our SEPD area to be built at New Forest in 2015 at £6m, and in Aldershot in 2017 for a further £6m, as well as extending the existing training facilities at our Thatcham depot for a cost of £2.2m. We have recently built a new depot at West London at a total cost of £5m and have used the costs incurred on this build to inform the forecast level of expenditure at Aldershot and New Forest. On completion of the build of these depots this will mean completion of our programme of refurbished and replacement Southern depots which commenced in 2007/08. This programme was to upgrade all our depots to modern accommodation and increased safety standards, the majority of which has not been refurbished since before privatisation. In addition to these specific refurbishments we have been incurring annual spend of approx £1.5m on minor upgrading and smaller refurbishment of properties on a rolling basis. Apart from this spend on the 2 new depots noted above and the training facilities; this level of £1.5m p.a. is our forecast expenditure through the ED1 period in SEPD.

SHEPD we will have completed the programme of major depot refurbishments during DPCR5 and apart from also having to extend the existing training facilities at our Perth depot across the first 2 years of ED1 at a total cost of £1.2m, we are forecasting £1.0m p.a. for our rolling programme of depot maintenance covering our 34 SHEPD properties over the 8 year period at 4 depots per year.

Appendix A.

Scottish & Southern Electric Power Distribution RIIO-ED1
Indirect Costs – Closely Associated Indirects, Business Support Costs & Non-op Capex
Supporting Paper

SHEPD	2011	2012	2013	2014	2015	DPCRS	Av. DPCRS
Network Design & Engineering	2.08	3.00	3.26	3.46	3.90	15.70	3.14
Project Management	2.21	2.22	1.94	2.45	2.78	11.60	2.32
Engineering Mgt & Clerical Support	14.26	13.89	14.07	15.95	16.78	74.94	14.99
System Mapping - Cartographical	0.47	0.39	0.68	0.69	0.69	2.92	0.58
Control Centre	2.03	1.99	2.00	2.09	2.14	10.25	2.05
Call Centre	1.31	1.19	1.28	1.67	1.75	7.19	1.44
Stores	1.00	0.90	1.04	1.06	1.07	5.07	1.01
Operational Training	2.70	2.62	2.99	3.27	3.27	14.85	2.97
Vehicles & Transport	6.55	6.33	6.15	6.57	6.63	32.23	6.45
Network Policy	0.12	0.14	0.19	0.26	0.27	0.97	0.19
Closely Associated Indirects	32.72	32.66	33.59	37.47	39.28	175.72	35.14

HR & Non-operational Training	1.76	1.86	0.83	0.89	0.90	6.24	1.25
Finance & Regulation	5.45	5.43	4.84	5.29	5.36	26.36	5.27
CEO	1.70	1.82	1.34	1.35	1.36	7.58	1.52
IT & Telecoms	8.27	8.62	7.03	7.29	7.48	38.69	7.74
Property Mgt	2.60	3.04	3.22	3.37	3.41	15.64	3.13
Total Business Support Costs	19.78	20.77	17.26	18.19	18.50	94.51	18.90

Vehicles	0.85	2.14	1.28	0.92	0.74	5.92	1.18
Small Tools, Equipment & Plant	0.92	0.82	0.94	0.95	0.95	4.58	0.92
Non-Operational Property	1.30	1.15	2.41	2.60	1.60	9.07	1.81
IT & Telecoms	2.13	3.36	0.70	1.36	1.36	8.92	1.78
Non Op Capex	5.20	7.47	6.29	5.83	4.65	29.45	5.89

Total	57.71	60.91	57.13	61.50	62.43	299.68	59.94
--------------	--------------	--------------	--------------	--------------	--------------	---------------	--------------

2016	2017	2018	2019	2020	2021	2022	2023	RIIO-ED1	AV. RIIO-ED1
4.23	4.55	4.51	4.48	4.45	4.42	4.36	4.33	35.33	4.42
2.99	3.25	3.22	3.19	3.17	3.15	3.12	3.10	25.19	3.15
16.98	17.07	16.95	16.82	16.70	16.58	16.47	16.31	133.89	16.74
0.69	0.69	0.69	0.69	0.69	0.68	0.68	0.68	5.49	0.69
2.12	2.10	2.09	2.08	2.06	2.04	2.02	1.99	16.49	2.06
1.80	1.81	1.79	1.78	1.76	1.75	1.74	1.73	14.16	1.77
1.06	1.06	1.05	1.04	1.03	1.02	1.02	1.01	8.29	1.04
3.06	2.91	3.16	3.45	3.05	3.07	3.39	3.23	25.32	3.16
6.59	6.55	6.51	6.47	6.43	6.39	6.36	6.32	51.64	6.45
0.26	0.26	0.26	0.26	0.26	0.26	0.25	0.25	2.07	0.26
39.80	40.25	40.23	40.26	39.60	39.36	39.41	38.95	317.87	39.73

0.89	0.88	0.88	0.87	0.86	0.86	0.85	0.85	6.94	0.87
5.34	5.32	5.30	5.28	5.25	5.24	5.21	5.20	42.13	5.27
1.35	1.34	1.33	1.33	1.32	1.31	1.30	1.29	10.58	1.32
7.88	8.26	8.56	8.74	8.69	8.64	8.60	8.56	67.92	8.49
3.40	3.39	3.38	3.37	3.36	3.35	3.34	3.33	26.93	3.37
18.86	19.20	19.45	19.58	19.48	19.39	19.31	19.23	154.51	19.31

1.37	0.85	0.69	0.92	1.39	1.25	0.81	0.85	8.14	1.02
0.92	0.89	0.87	0.84	0.82	0.80	0.77	0.74	6.65	0.83
2.50	2.47	1.49	1.46	1.44	1.41	1.37	1.35	13.50	1.69
2.52	2.69	2.95	3.01	2.88	2.94	3.00	3.06	23.05	2.88
7.31	6.90	6.00	6.24	6.53	6.40	5.96	6.00	51.34	6.42

65.97	66.36	65.68	66.08	65.62	65.15	64.67	64.18	523.72	65.46
--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	---------------	--------------

SEPD	2011	2012	2013	2014	2015	DPCRS	Av. DPCRS
Network Design & Engineering	3.41	3.96	3.75	4.42	4.61	20.15	4.03
Project Management	8.26	9.03	8.60	9.25	9.75	44.89	8.98
Engineering Mgt & Clerical Support	23.97	23.37	23.98	26.15	27.11	124.57	24.91
System Mapping - Cartographical	1.25	1.18	1.25	1.27	1.29	6.25	1.25
Control Centre	3.08	3.12	3.05	3.13	3.25	15.63	3.13
Call Centre	2.59	2.24	2.24	2.47	2.66	12.20	2.44
Stores	2.32	2.17	2.20	2.26	2.35	11.30	2.26
Operational Training	3.65	3.54	4.41	4.69	5.07	21.36	4.27
Vehicles & Transport	14.73	13.98	13.05	15.39	15.68	72.83	14.57
Network Policy	0.51	0.50	0.54	0.92	0.92	3.40	0.68
Closely Associated Indirects	63.77	63.09	63.07	69.95	72.68	332.57	66.51

HR & Non-operational Training	2.02	2.01	1.41	1.55	1.59	8.58	1.72
Finance & Regulation	9.28	9.28	9.27	9.51	9.61	46.94	9.39
CEO	1.87	1.88	1.97	2.05	2.11	9.88	1.98
IT & Telecoms	10.12	10.36	9.03	10.28	10.67	50.45	10.09
Property Mgt	3.80	4.14	4.54	4.35	4.43	21.25	4.25
Total Business Support Costs	27.09	27.66	26.22	27.73	28.41	137.11	27.42

Vehicles	0.38	2.30	3.51	3.46	3.16	12.81	2.56
Small Tools, Equipment & Plant	2.58	2.75	2.42	2.90	2.90	13.55	2.71
Non-Operational Property	2.59	0.62	2.68	2.50	2.50	10.89	2.18
IT & Telecoms	2.37	3.61	0.87	1.61	2.11	10.57	2.11
Non Op Capex	7.92	9.28	9.48	10.47	10.67	47.82	9.56

Total	98.78	100.03	98.77	108.16	111.76	517.50	103.50
--------------	--------------	---------------	--------------	---------------	---------------	---------------	---------------

2016	2017	2018	2019	2020	2021	2022	2023	RIIO-ED1	AV. RIIO-ED1
4.79	4.79	4.75	4.72	4.67	4.63	4.60	4.56	37.51	4.69
10.16	10.17	10.08	10.00	9.92	9.83	9.75	9.68	79.58	9.95
27.44	27.47	27.26	27.02	26.80	26.59	26.31	26.06	214.96	26.87
1.30	1.30	1.29	1.29	1.28	1.27	1.27	1.26	10.26	1.28
3.35	3.32	3.29	3.26	3.23	3.20	3.18	3.15	25.99	3.25
2.84	2.82	2.80	2.78	2.75	2.73	2.71	2.70	22.14	2.77
2.38	2.36	2.34	2.32	2.31	2.29	2.27	2.26	18.53	2.32
4.65	4.71	5.14	5.06	5.32	5.61	5.95	5.96	42.40	5.30
15.74	15.63	15.53	15.43	15.32	15.23	15.14	15.05	123.06	15.38
0.93	0.93	0.92	0.91	0.90	0.90	0.89	0.88	7.26	0.91
73.59	73.51	73.41	72.79	72.51	72.29	72.06	71.55	581.70	72.71

1.62	1.61	1.60	1.58	1.57	1.56	1.55	1.53	12.62	1.58
9.77	9.73	9.69	9.65	9.62	9.58	9.54	9.51	77.08	9.64
2.13	2.12	2.10	2.08	2.07	2.05	2.04	2.02	16.61	2.08
11.39	11.95	12.47	12.90	12.84	12.78	12.73	12.68	99.76	12.47
4.44	4.43	4.41	4.40	4.39	4.38	4.37	4.35	35.17	4.40
29.36	29.83	30.27	30.62	30.48	30.35	30.22	30.10	241.24	30.16

3.10	3.37	2.37	3.00	2.94	2.90	2.97	2.93	23.57	2.95
2.79	2.73	2.68	2.62	2.54	2.48	2.42	2.36	20.61	2.58
3.89	4.32	3.80	4.23	1.38	1.36	1.34	1.32	21.65	2.71
3.11	3.71	3.71	3.71	3.81	3.81	3.81	3.61	29.28	3.66
12.88	14.13	12.56	13.55	10.68	10.55	10.54	10.22	95.10	11.89

115.84	117.47	116.23	116.95	113.67	113.18	112.82	111.87	918.04	114.76
---------------	---------------	---------------	---------------	---------------	---------------	---------------	---------------	---------------	---------------