



# **ANNEX 27: CORPORATE GOVERNANCE, COMPLIANCE AND DATA ASSURANCE BUSINESS PLAN ANNEX**

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# 1. Executive Summary

## 1.1 Corporate Governance

Electricity North West takes its role as a public service provider very seriously and recognises the responsibilities associated with our position. We adopt the highest levels of corporate governance to protect our customers and stakeholders. The first part of this document provides an overview of the governance structures in place to ensure that our business is appropriately governed.

## 1.2 Submission Assurance

Equally, we take our regulatory reporting responsibilities seriously. Regulatory assurance forms a central part of our wider assurance processes.

As part of our early planning processes, we identified the Well Justified Business Plan (WJBP) submission as a significant, high process risk publication and recognised the potentially significant implications for our customers if we got things wrong. We therefore commenced our data and process assurance planning for this publication in 2011 and have committed significant resources into the development and assurance of our plan.

The WJBP submission comprises a combination of historic actual data, current year data and forecast data; these aspects require quite different assurance processes. Our governance process for the plan is consistent with other significant regulatory submissions, including assurance checks, second person review, internal expert reviewers, risk-based audits and ultimately, approval by the Electricity North West Board.

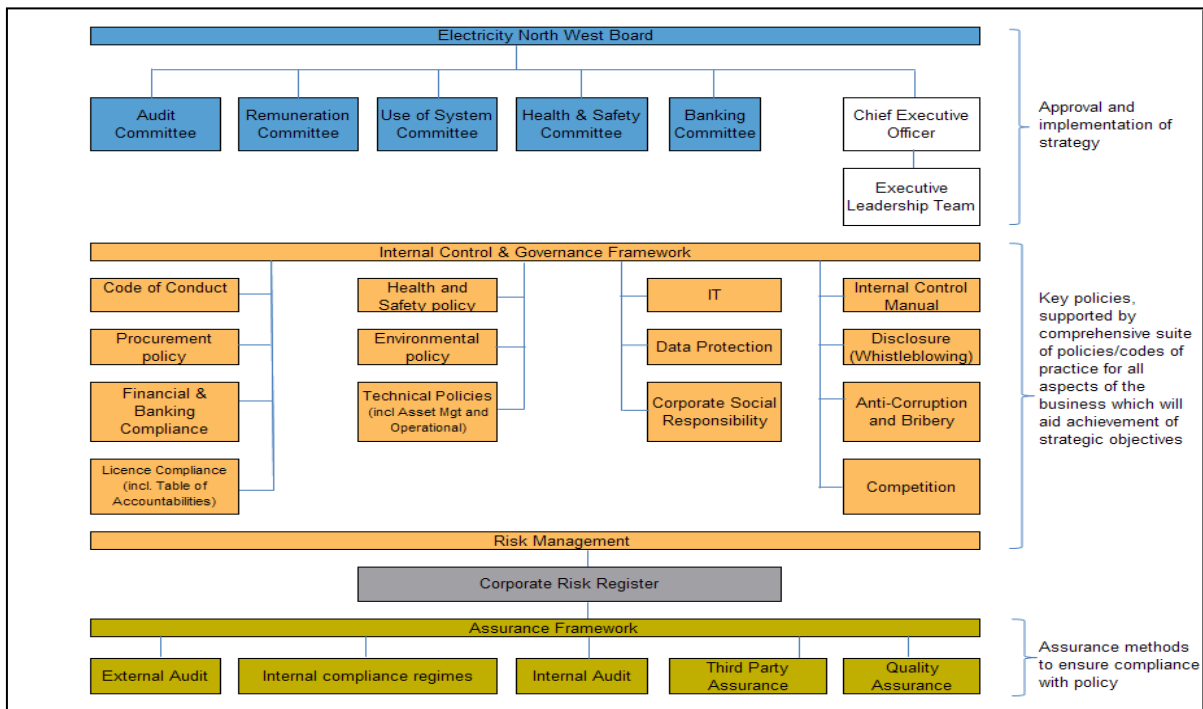
This document provides a high level summary of the data assurance processes applied to all aspects of our plan.

# 2. Electricity North West Corporate Governance

## 2.1 Overview

This chapter details the corporate governance statement for Electricity North West Limited.

The figure below summaries the key components of the governance framework. The coverage and content of the framework is similar to that which a quoted company is required to hold under UK Corporate Governance Code (the Code).



## 2.2 Compliance Statement

The Financial Conduct Authority’s Listing Rules require UK quoted companies to explain to shareholders how they have applied the ‘Main Principles of the Code’ or explain why they have not done so.

The intention of the Code is that companies should be able to explain their governance in the light of the principles that have led them to a particular approach. The Directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Code, the approach is justifiable given the privately held nature of the Company and that the provisions of the Code are disproportionate or less relevant in our case.

We have set out below and in the following pages our compliance with the main principles of the Code and explain any areas of non-compliance.

## **2.3 Leadership and Effectiveness**

### **2.3.1 The Role of the Board**

The Company's strategy is to become the leading energy delivery business, measured against the following strategic objectives:

- Understand and Influence the Market;
- Understand and Deliver for Customers and Stakeholders;
- Develop a High Performance Organisation; and
- Deliver Sustainable Growth with Robust Financial Performance.

The Board's role is to ensure the Company is equipped to deliver this strategy both today and in the long term. To ensure that it achieves this, the Board meets regularly to provide leadership, set strategic direction and objectives and ensure that appropriate financial and other resources are made available to enable the Company to meet those objectives. The Board has agreed its Business Plan to ensure the Company's strategic objectives are delivered through:

- A stable financial structure, providing necessary financing to support business operations;
- Improved financial performance that meets financial covenants governing the business;
- Sustainable dividend profile while retaining gearing within the target level; and
- Capital and maintenance plans that deliver financial and network outputs in line with regulatory contract commitments.

In addition, the Board oversees the work of the Audit Committee in drawing up and maintaining a framework of controls that assess and manage the risks the business is exposed to. This is discussed in more detail later in this Annex.

The Company has identified a number of key areas that are subject to regular reporting to the Board. There is in place a schedule of decisions reserved for the Board which includes: strategy approval and management; succession planning; business plan approval; internal controls; Company policies and delegation of authority. Projects and contracts have various limits of approval to Board level.

### **2.3.2 Board Committees**

The terms of reference of each Committee are available to the shareholders of the Company and can be obtained by written request from the Company's registered office, with the exception of the Audit Committee terms of reference which is available on our website.

#### Audit Committee and Auditors

The activities of the Audit Committee are discussed in more detail in section 2.3.15. The committee is attended by designated Directors of the Board.

#### Remuneration Committee

The activities of the Remuneration Committee are discussed in more detail in section 2.3.10. The committee is attended by designated Directors of the Board.

#### Health and Safety Committee

The remit of the Health and Safety Committee includes: setting the health and safety strategy, objectives and targets; reviewing and monitoring performance and reporting to the

Board. The committee is attended by designated Directors of the Board and of the Executive Leadership Team.

#### Financing Committee

The Financing Committee was constituted as a formal committee of the Board in December 2012. Duties include assisting the board in overseeing the financial risk management strategy and treasury matters delegated to it by the Board and approving major financial transactions on behalf of the Board.

The committee is attended by designated Directors of the Board.

#### Use of System Pricing and Banking Committees

In addition to the above, there are two executive committees of the Board. The Use of System Pricing Committee meets to approve all the prices contained in the Standard Licence Condition 14 statement.

The Banking Committee met once during the year and has been established to deal with banking matters.

#### Non-Standing Committees

As the need arises, non-standing committees are established to deal with special issues. An example of such is the training centre committee which met to approve the purchase and funding of a training facility.

### **2.3.3 The Chairman and Division of Responsibilities**

There is a clear division of responsibilities between the Chairman and the Chief Executive and these responsibilities are set out in their respective contracts. An independent non executive Chairman was appointed with effect from 1 March 2014 and fulfils the independence criteria detailed in the Code.

However, in January 2013 Ofgem published its formal licence modifications for conditions in all of the network operator licences. One of the requirements will be for an operator to have two sufficiently independent directors on their Board. Directors will not be considered "sufficiently independent" where they are directors or employees of any company which has any of the same ultimate controllers as Electricity North West Limited, unless that company has a gas transporter, electricity transmission or distribution licence. Nor can directors sit on any holding company unless its sole holding is the licensee and other wholly owned subsidiaries having such a licence.

This licence condition will come into effect on 1 April 2014. We have therefore reviewed the composition of its Board and the independence of its Non Executive Directors and its Chairman to ensure compliance with the Licence Condition and the Code.

The Chairman, with the assistance of the Company Secretary, sets the board agenda and ensures the board receives accurate, timely and clear information to enable sound decision making and effective monitoring.

### **2.3.4 Non-Executive Directors**

Non-executive directors participate fully in discussions on strategy and are responsible, through the Remuneration Committee, for Executive Directors' remuneration, appointments and succession planning for the Executive Leadership Team.

As there are representatives of both shareholders on the Board, it has not been considered necessary to appoint a Senior Independent Director to be available to shareholders as required by section A.4.1. of the Code.

### **2.3.5 Composition of the Board**

Two of the Directors fulfil the requirements of independence as set out in the Code. There are four additional Non-Executive Directors on the Board, each of whom represents one of the Company's ultimate shareholders. The Company believes that these Directors, together with the Chief Executive Officer and Chief Financial Officer, are a good balance of Executive and Non-Executive representation to enable the Board and its Committees to discharge their duties effectively and to ensure that no individual or small group of individuals can, or do, dominate the Board's decision making. In addition, employees have been included in the membership of the Health and Safety Committee in order to further enhance the effective discharge of these respective responsibilities.

The Company is not an equity listed company and therefore the quota of Independent Directors listed in the Code, section B.1.2, is not considered appropriate for the Company, having regard to its privately held status.

### **2.3.6 Appointments to the Board and Board Member Commitment**

The Board is satisfied that the process of appointing new Directors to the Board is formal, rigorous and transparent. Succession planning is in place for the Executive Leadership Team and senior management to ensure the Company has the appropriate mix of skills and experience.

It is the Company's aim to ensure an appropriate level of diversity in the Boardroom as vacancies arise. Appointments are made on merit, taking into account relevant skills, experience, knowledge, ethnicity and gender. These issues are also taken into consideration by shareholders when appointing their representatives to the Board.

The strength of the Board is vital and the overriding aim in any new appointment will always be to select the best candidate to support the achievement of the Company's objectives.

There is no formal Nominations Committee for the appointment of Directors and the Company does not comply, therefore, with the sections of the Code (B.2.1, B.2.2, B.2.4, B.3.1 and E.2.3) which deal with Nomination Committees.

The Remuneration Committee has been delegated this function by the Board and in any appointment of an independent Non-Executive Director, an external recruitment company is used.

The terms and conditions of Non-Executive Director appointments are made available to shareholders. The expected time commitment is conveyed to Directors, either in written or verbal form and all Directors confirm that they have sufficient time to fulfil the role. The Board is regularly updated on other significant appointments undertaken by any Director.

### **2.3.7 Development, Information and Support**

New Directors are given an induction on joining the Board, detailing the Company's business, corporate governance and reporting procedures. This induction process is tailored to the skills, knowledge and experience of the individual and is designed to enable them to discharge their duties effectively.

All Directors receive comprehensive information on a regular basis. Board papers are distributed via the Company Secretary's office sufficiently well in advance of the relevant meeting to allow time for Directors to be fully briefed. The papers are detailed enough to enable the Directors to obtain a thorough understanding of the management and financial performance of the Company and its business. In addition, two-day Board meetings are held throughout the year to enable Directors to better understand major projects or processes in more depth. Meetings with senior management together with asset tours are undertaken to assist in their knowledge of the business.

The Company Secretary assists with professional development when required and advises on governance matters both on an individual basis and in the form of papers to the Board.

All members of the Board have access to independent professional advice at the Company's expense where they consider it necessary to fulfil their responsibilities.

### **2.3.8 Evaluation**

A Board evaluation was conducted by Ffion Hague of Independent Board Evaluation in May 2011 and the Board has continued to build on the process undertaken at that time. The findings have been widely discussed and the Board will continue to undertake self evaluation and development initiatives to ensure members continue to enhance their skills and expertise with regard to their Board responsibilities.

### **2.3.9 Re-election of Directors**

As a private company, the Company is not required to hold Annual General Meetings unless requested by the shareholders. The Articles of the Company do not require that Directors retire by rotation. The Company has strong links, however, with its ultimate shareholders: Board membership includes shareholder representatives and although the Company is not compliant with section B.7. of the Code due to its private status, shareholders are involved in Director appointments to at least as great an extent as if re-election took place at an AGM.

Should any Executive Director serve as a Non-Executive Director elsewhere in a situation where remuneration would be provided for that role, a decision would be made as to whether the director was authorised to retain that remuneration.

### **2.3.10 Remuneration Level and Components**

The primary principle for the Company's remuneration policy is that remuneration and other terms of employment shall be fair and competitive to attract, retain and motivate Executive Directors ('Executives') of sufficient quality to deliver the objectives of the Group.

As a private Company, a remuneration report is not required to form part of the Company's Annual Report and therefore the Company does not comply with section D.1.2. of the Code.



The Remuneration Committee is careful to ensure that compensation arrangements in Executives' terms of appointments are appropriate, reward good performance and safeguard against rewarding poor performance. Notice periods are set at one year or six months.

Performance-related elements of remuneration formed a significant portion of the total remuneration package of the Executive Directors in the last year and these are linked to both corporate and individual performance objectives.

### **2.3.11 Remuneration Procedure**

The Remuneration Committee sets the policy and procedures for Executive remuneration and for setting the remuneration packages of Executive Directors. No Director is involved in setting his or her own remuneration.

The Committee has responsibility to make recommendations to the Board on the policy and framework for the remuneration of the Executive Directors, approve employment related benefits for other Company employees and implement employees' bonus and long term incentive plans. The Remuneration Committee has responsibility for setting remuneration and succession planning for the Company's Executive Team.

Share options are not offered as an incentive to Executives or Non-Executive Directors as the Company is private. Remuneration for Non-Executives is reviewed by the Remuneration Committee, which ensures that this reflects the time commitment and responsibilities of the role.

### **2.3.12 Financial and Business Reporting**

The Board takes seriously its responsibility to ensure that a balanced and understandable assessment of the Company's performance, position and prospects is given in the Annual Report and in any other report published by it for Ofgem or other stakeholders as necessary.

### **2.3.13 Internal Control Framework**

The Board is responsible for the Group's system of internal control and its ongoing review. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Company. This internal control framework is reviewed regularly by the Board and accords with the revised Internal Control: Guidance to Directors (formerly the Turnbull guidance).

The internal control framework is designed to identify and manage the principle risks and uncertainties of the business to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The key features of Electricity North West's internal control framework are:

- The highest standards of behaviour are expected from our employees. At Electricity North West we are proud of our strong commitment to having high ethical standards in the way that we work. We have outlined what those principles are in our Employee Code of Conduct document, which summarises our approach to doing business. All our employees must act in accordance with those principles.
- Engagement and commitment are obtained from all levels of the organisation in order to promote a strong control environment with clearly defined accountabilities

and organisation structures, operating within a framework of policies and procedures covering every aspect of the business.

- Comprehensive compliance regimes are in place to help ensure that the business meets its various financial, statutory and regulatory obligations.
- A well established 'Table of Accountabilities', which is updated (as a minimum) annually, is in place which details the obligations under the standard and special licence conditions that we must adhere to. It outlines who has specific accountability for compliance with each of our licence conditions.
- Comprehensive business planning, risk assessment and financial reporting policies and procedures are in place. They include the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years.
- A Capital Programme Management Group and Project Approvals Group with defined policies and procedures, for planning, approving and monitoring major capital investment projects, provide effective governance in this area.
- Monthly reporting of financial and non-financial performance to the Board and Executive Leadership Team. Reviews are made of monthly performance against budgeted and targeted performance.
- A detailed Internal Control Manual is maintained, acting as the cornerstone of the internal control framework, which our employees are required to adhere to.
- The Risk, Control and Assurance team has responsibility for independently assessing the adequacy and effectiveness of the management of significant risk areas and internal control. This ongoing assessment helps to inform our annual risk-based audit strategy and plan.
- A designated audit team reporting to the Head of Health, Safety and Environment serves to monitor the effectiveness of our key Health and Safety controls and reporting processes, overseen by a committee of the Board.
- The Disclosure ('Whistleblowing') policy for Electricity North West seeks to ensure that any employee may voice any concerns about particular incidents of wrongdoing, or other suspected malpractice, without fear of criticism or future discrimination, provided that any matters raised are in good faith.
- Formal briefings are provided to our employees on key areas of the internal control framework in order to promote understanding and commitment, and relevant information is included within induction for new employees.

#### **2.3.14 Risk Management**

At Electricity North West our aim is to be a company where risk management is embedded in our culture, protects our reputation, enhances our performance and is central to us achieving our overall company vision 'to be the leading energy delivery business'.

Core to achieving this is our belief that all employees can play their role in identifying and managing risk.

The Company has a well embedded structure and process to help identify, access and manage risks, forming key elements of the risk management system.

The risk management system has been externally validated during the year as being in accordance with ISO 31000 'Risk Management - Principles and guidelines'.

The key features of the risk management system are as follows:

- Mandate and commitment demonstrated through the risk management policy statement and endorsed by the Executive Leadership Team.
- Clear risk management strategy in place to support continual improvement.
- Roles and responsibilities clearly defined to ensure effective ownership and delivery of risk management.
- Appropriate operational and non-operational risks are managed on a single corporate risk register which is maintained by the Head of Risk, Control and Assurance.
- The corporate register is underpinned by a number of 'local' risk registers in various areas of the business. Key risks on these 'local' registers are fed into the corporate risk register as they are identified.
- Each risk on the corporate register is designated to a member of the Executive Leadership Team who has the overall responsibility for managing that risk.
- All open risks, associated controls and mitigating actions are reviewed on a monthly basis as part of a well embedded risk monitoring process.
- A network of risk co-ordinators has been established to enhance the risk monitoring process. Importantly this strengthens risk accountability within the business. This group meets formally on a bi-monthly basis.
- Quarterly risk workshops are held with the Executive Leadership Team in order to review the key risks that appear on the corporate register and discuss any emerging risk themes.
- An annual risk review is formally held with the Electricity North West Board.

### **2.3.15 Audit Committee and Auditors**

The main purpose of the Audit Committee is to review and maintain oversight of our corporate governance, particularly with respect to financial reporting, internal control and risk management.

The Committee meets regularly during the year aligned to the financial reporting timetable. Significant Board member time is also spent at meetings with executive management, understanding the key issues and underlying processes, setting agendas and meeting with auditors.

The Committee consists of Non Executive Directors with relevant experience with one being Independent. Therefore we comply with the Disclosure and Transparency Rule 7.1.1 to have one Independent Non Executive Director, but not with the requirement of section C 3.1 of the Code which requires three. The composition is considered by the Board however, to be objective and effective given the Company's private ownership, shareholder representatives on the Committee, input from Executives and the external auditors.

By invitation, Audit Committee meetings are regularly attended by the Chief Executive Officer, the Chief Financial Officer and the Head of Risk, Control and Assurance and representatives from the external auditors, Deloitte LLP. The Committee also meets privately, without any member of the management present, with both the internal auditor and external auditors.

Minutes of the Committee meetings are made available to the Board. Additionally, the Chairman of the Committee reports to the Board after each meeting on any issues where action or improvement is required.

The main role and responsibilities of the Audit Committee are set out in its terms of reference and include those items detailed in section C 3.2 of the Code, except that the Company does not hold an AGM and therefore the appointment external auditors are approved by the Board based on the review and recommendations of the Audit Committee.

The Committee's principal responsibilities include:

- Monitoring the integrity of the financial statements of the Company, including its annual and half yearly reports and any other formal announcements relating to its financial performance.
- Reviewing and monitoring the effectiveness of the Company's internal control and risk management systems.
- Reviewing whistleblowing arrangements.
- Considering the appointment, re-appointment, fees and removal of the external auditor and making necessary recommendations to the Board.

In December 2012 the Board reviewed the terms of reference in light of the Financial Reporting Committees' Guidance on Audit Committees and the revised UK Corporate Governance Code issued in September 2012. Going forward, the Committee will ensure that the external audit contract is put out to tender at least once every ten years. The Committee will also advise the Board on whether, taken as a whole, the Company's financial reporting is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

### **2.3.16 Work of the Audit Committee**

During the last financial period, key areas of focus for the Audit Committee included:

- Internal Controls – continued monitoring and review of the Company's system of internal controls, taking account of the findings of both internal and external audit reports.
- Risk Management – monitoring the process for managing ENWL's significant risks, including regular presentations and reporting from the Head of Risk, Control and Assurance. A risk review was also completed by our Board, feeding in to the work of the Committee.
- Relationship with External Auditors – overseeing the Company's relationship with the external auditors, including recommending reappointment, the scope and approach to their work, their fees, performance, expertise, objectivity and independence (including the approval and compliance with the Company's policy on non-audit work).
- Financial Reporting – reviewing the Group's financial statements, including reports from management and from the external auditors regarding compliance with accounting standards, key judgements made in preparation of financial statements and compliance with legal and regulatory requirements.
- Internal Audit Workplan – overseeing the work of internal audit, including approval of the plan of work for the period and resulting actions and recommendations.

### **2.3.17 Provision of Non-Audit Services**

To ensure external auditor independence and objectivity, the Company has in place a policy for the provision of non-audit services by the external auditor, which is managed by the Audit Committee. The policy defines the nature of non-audit work that may be undertaken in order that auditor independence is maintained. The Committee is required to authorise any work not falling into the permitted categories defined in the policy or falling above a financial limit of £250,000.

Proposed work is reviewed for compliance with regulatory requirements that preclude auditors from performing certain types of work and to assess if the nature of the work would create a conflict of interest. The Committee is updated on the nature, cumulative costs and extent of non-audit services provided by the auditors.

### **2.3.18 Internal Audit**

All internal audit activity is conducted by a single team under the leadership of the Head of Risk, Control & Assurance. The role has a dual reporting line into the Audit Committee Chairman and the Chief Financial Officer. The Risk, Control & Assurance team has responsibility to the Audit Committee for agreement of the annual risk-based audit strategy and plan, providing regular updates on findings and progress against the plan. The audit strategy is subject to robust review each year in order to ensure that the plan addresses key areas of focus for the business.

A formal quarterly meeting between the Head of Risk, Control & Assurance and the Audit Committee Chair takes place outside of the formal Audit Committee meetings in order to discuss findings and progress against and adequacy of the annual plan, and ensure sufficient resources are in place.

The Risk, Control and Assurance team comprises both financial and operational expertise and works closely with related areas of assurance and compliance activity within the business, including legal, health and safety and regulation.

When issues or control deficiencies are identified during audit engagements, the Risk, Control & Assurance team works with business managers to develop corrective action plans to address the causes of non-compliance and gaps in internal controls. The team employs a rigorous monitoring process to track these plans to completion and report results on a monthly basis to the Executive, and at each Audit Committee meeting.

To supplement the internal skills required to complete the audit programme, the Group uses external financial and operational professionals, where appropriate, to provide independent assurance of internal control processes in accordance with a pre-defined scope.

In compliance with the Code, the Board regularly and at least annually reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses identified are promptly remedied or managed by more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities.

### **2.3.19 Relationship with shareholders**

Electricity North West Limited is a private company and the ultimate holding Company, North West Electricity Networks (Jersey) Limited, has just two major shareholders. Board membership includes four Non-Executive Directors taken proportionately from both the Company's ultimate shareholders. The Board as a whole therefore has a full understanding of the views of the major shareholders of the Company including on strategy and governance.

The Company's relationship with the shareholders as described above is a strong one not requiring a formal AGM as outlined in section E.2 of the Code.

## **3. Compliance and Data Assurance**

### **3.1 Introduction**

We strive to employ the highest standards of corporate governance commensurate with our status as a public interest entity. Consistent with this, we take regulatory compliance and assurance seriously. We have always considered that Electricity North West has a series of robust processes in place and therefore we are pleased to attach our summary of the assurance process for our Business Plan.

Our approach to assuring our WJBP was based on the existing processes in our business that individually and collectively assure our regulatory data on a routine basis. These processes form an integral part of our corporate governance and control framework that encompass our risk management, assurance and compliance processes.

### **3.2 Purpose of the Report**

This report sets out the approach we take to produce a business plan submission which customers and stakeholders (including Ofgem) can rely upon.

### **3.3 Structure of the Report**

This report describes the assurance activities undertaken for the various documents that comprise our WJBP submission. Section 4 describes our overarching approach to compliance and assurance within the business and details the processes and assurance activities undertaken from the development through to the publication of the business plan.

### **3.4 High Level View of Overall Company Approach to Governance**

The assurance plan for the business plan submission was developed and conducted in the wider context of our corporate governance and control processes. These processes are well established and are Board led – with Non Executive Directors playing important roles in leading our governance and control processes.

Our internal control and governance framework outlines our approach to governance, internal control and assurance. Regulatory assurance forms a central part of this and is firmly embedded within our wider assurance processes.

Our corporate internal control and governance framework is further enhanced by our corporate values within which Honesty and Professionalism are central to the way in which our people work.

### **3.5 High Level View of Overall Approach to Regulatory Submissions.**

Electricity North West's only business is being a Distribution Network Operator. Key value drivers for our business are regulatory measures and as such our business is substantially operated based on regulatory data.

Our key performance indicators, including our company scorecard, include several regulatory measures. These are reviewed regularly by our Board and our Executive Leadership Team (ELT) which includes all the directors reporting into the Chief Executive Officer. This means that a substantial proportion of our key regulatory data is reported regularly rather than being only collated at a year end.

We regularly undertake ongoing improvement activities that enhance the robustness of our data and reporting processes. All of these improvements seek to further align business information with regulatory reporting requirements.

To ensure that senior managers are aware of the importance of regulatory compliance and reporting, regular briefings and interviews are conducted. The Electricity North West Limited Board was advised of Ofgem's new requirements for Data Assurance at the Board meeting in January 2013.

### **3.6 Clear Accountabilities**

Our regulatory compliance and assurance processes ensure that accountability for regulatory compliance is clear, processes are robust and employees have access to the information they need to understand their role.

Our processes include clear accountability for compliance with each licence condition through a formalised table of accountabilities, with each licence condition being assigned to an accountable member of our Executive Leadership Team (ELT), and senior managers identified as being accountable for strategy and implementation. These accountabilities are reviewed when the organisational structure changes. The most recent review was completed in January 2013. Interviews with accountable ELT members and senior managers are undertaken regularly to review compliance status.

### **3.7 Compliance Processes**

Our compliance processes prescribe minimum assurance of all submissions including documented methodologies, assurance by component reviewer, sign off of each submission by an accountable senior manager (up to and including a Board Director) and formal review of compliance and reporting processes.

Our process includes specific arrangements necessary to cater for very large submissions (such as the WJBP and Regulatory Reporting Pack (RRP), where it is appropriate to detail accountabilities to table level) and for frequent submissions. Where data is required from many teams across our business, our processes are designed to make accountability of wider contributors clear whilst also ensuring overall ownership of each table.

In addition, based on the assessed risk of the requirement, we also supplement these minimum standards with specialist internal expert review and with both internal and external audit, in line with our overall risk and audit strategy.

One of our key areas of focus over recent years has been recognising the importance of employee engagement and ownership of regulatory reporting. Our embedded compliance processes are supported by an ongoing process of briefings and accountability interviews that further serve to promote understanding, engagement and commitment amongst our employees responsible for licence compliance.

We also undertake face-to-face briefing of appropriate employees. These are tailored for teams and place the requirements on them in the wider context of our 'regulatory contract'.

Our company bonus is also linked to the regulatory performance of the business. By aligning the company performance with rewards, employees are encouraged to improve customer and network performance.



## 4. Assurance Undertaken

### 4.1 Approach to Assuring our Business Plan.

The WJBP submission comprises a combination of historic actual data, current year data, forecast data and supporting analysis. This report covers all four areas and describes the data assurance processes attached to each area. The nature of the submissions requires quite different assurance processes for the different datasets. Whilst data assurance regimes have been in place for the reporting of actual data (involving a combination of sign off, review, internal and external audit and assurance), new processes put in place for the forecast tables were maintained. Assurance of actual data and forecasts is different in nature. Our assurance process ensures:

- Historic audited data is accurately represented
- The forecasts within the WJBP are robust and internally consistent.
- Assumptions used are sound and costs/volumes have fed through accurately.
- The current year actual data is consistent between the RRP and the business plan.

Our preparation for this submission has built upon the WJBP submitted to Ofgem in July 2013. The majority of the processes developed for that submission have been adopted for this business plan.

### 4.2 Business Plan Data Tables

The business plan tables are a combination of actual performance and forecasts. These different numbers require different assurance processes to ensure that a robust plan is produced.

#### 4.2.1 Historic Data

Data submitted to Ofgem for historic years (2010-11, 2011-12 and 2012-13) was reviewed prior to its original submission through our internal assurance process, supported by targeted external data and process audits by specialists (including KPMG, ERM CVS, Mike Dixon Limited etc). Submissions have been reviewed by Ofgem and modifications made where required. For the business plan submission, the assurance of the restatement of historic data was managed via two additional processes:

- Where data requirement is simply to restate previously submitted data in exactly the same format but in a different price base, assurance processes were in place to ensure that data was correctly inflated and mapped.
- Where data was required in a different format or on a new basis, the revised data is subjected to the full data assurance activity as if for 2012-13 actuals.

In a small number of instances, this assurance identified minor issues with previously submitted data. Where such issues were found, we have restated the data.

#### 4.2.2 Reporting of 2013-14 Data

The 2013-14 data is based upon actual data recorded up to the end of December 2013 and forecast data for the remaining three months. As such, there may be some differences between the 2013-14 data used in this business plan and the 2013-14 RRP. However, our assurance process and the utilisation of nine months' actual data will keep these differences to a minimum. As this is not a full year's data, we have not conducted a new risk assessment and have relied instead on the learning from the risk assessment conducted as part of the July 2013 business plan submission.

The assurance process for the reporting of actuals is already established under RRP governance and is compliant with Ofgem's data assurance guidance requirements. Although 2013-14 is not a full year of actual data, we have utilised many of the compliance processes that would be in place for the RRP to give confidence in this data including internal expert review of all data tables. The full data assurance process will be implemented for the full 2013-14 year as part of the RRP process.

#### Internal Assurance

The process for submission against the RIIO ED1 Business Plan Data Templates Regulatory Instructions and Guidance included review and approval by contributors from each directorate, table owners and internal expert reviewers. Key submissions are reviewed at our Board meeting and authority delegated to appropriate directors for detailed approval.

The following checking process is now utilised by individual table owners as they complete the tables:

- 'Level 1' – checks within one table that can be carried out by table owners as part of their sign off. Where appropriate these checks can be automated.
- 'Level 2' – checks between tables in the same pack that can be carried out on consolidation, with any issues flagged to table owners. Some of these can be automated, whereas others are wider 'sense checks'.
- 'Level 3' – checks between different reporting packs or regulatory submissions. These checks are less easily automated and require manual checks to ensure consistency.

#### **4.2.3 Forecast**

This section details the assurance approach for the completion of the forecast elements (the remaining one year and three months of DPCR5 and all eight years of RIIO-ED1) of our Business Plan Data Templates (BPDT).

#### Internal Assurance

Our approach to producing the business plan mirrors our approach for all of our large scale key regulatory deliverables. We have a table ownership document which sets out the responsibilities of table owners for the RRP and the BPDT for the WJBP submission. This document also sets out the business owner, support staff and an internal specialist reviewer for each table in the pack.

To ensure that our business plan is consistent with our day to day operation and reporting, the original business plan table owners were generally the accountable business area managers who report and review the annual regulatory reporting submissions to Ofgem. For this version of the business plan, the finance partners who support these managers have reviewed the forecasts to determine where changes are required and have then ensured that forecast and actual numbers are consistent.

The governance programme surrounding the submission ensured that senior management and the Board lead and understand the development of the business plan. The company established a RIIO steering group comprising senior managers from across the business attending. This group contained experienced regulatory specialists and professionals from across the business. This group developed the business plan positions and reviewed content for appropriateness. The ENWL Board has held a series of workshops with the senior management team to understand the content, progress, assurance and deliverables contained in the plan. These sessions have allowed the Board to sign off the business plan submission.

The business plan is based on our best view of future costs. Material assumptions used in compiling the numbers have been documented. These have been reviewed by the RIIO steering group and Board for appropriateness. These assumptions have been set out in the commentary for the business plan.

The quality assurance process for all data tables in our submission followed the process documented below:

- Individual table ownership established. This was based on a combination of business area and ongoing annual reporting responsibilities. Tables in the business plan which are not part of the regular reporting (eg Real Price Effects) were assigned based on business area responsibility. Tables are completed taking into account stakeholder feedback and business requirements. Table owners were also asked to complete the level 1, 2 and 3 checks described above as part of the table completion process.
- Completed tables were challenged and reviewed by a senior business manager and business area finance representative. The tables and commentary were signed off by all parties.
- High level adjustments, assumptions and consolidation of the tables into the submission were completed by a dedicated RIIO submission resource. Tables were reissued back to the table owners for confirmation.
- A review of the final tables was completed by Business Owner, Table Owner and Finance Support.
- Internal expert reviewers (named senior regulatory professionals) conducted reviews of the tables and provided feedback to table owners. Internal expert reviewers signed off the tables when they were satisfied that any issues identified were resolved.
- A summary view of all changes to the business plan since the July 2013 submission was presented to the Board for approval and sign off.
- The Board signed off the submission and approved the CEO to submit on its behalf.

### External Assurance

The assurance process for forecasts is very different from the established processes for historic data or statements. For our July 2013 business plan submission, we worked with a number of external parties to develop, validate and challenge our assumptions in order to produce an appropriate, robust and efficient plan. We have checked that all of these reports remain valid and applicable where utilised to support this version of the business plan. The table below highlights the consultants/groups we worked with to develop the July 2013 business plan.

Company	Business area assessed
Mott MacDonald	Overall business costs
Gartner	IT costs
KPMG	Fixed cost assessment
KPMG	Cost of capital
PB Power	Activity volumes
EC Harris	Real Price Effects
CEPA	Regional economic forecasts
Smart Grid Forum	Low carbon investment projections and scenarios

Several of these consultants have provided annexes to the business plan and these documents were assured by the named individual company's processes.

For this version of the business plan we have commissioned additional reviews from the following external parties:

Company	Business area assessed
KPMG	Cost of capital
EC Harris	Real Price Effects
Oxera	Fixed costs
Oxera	Totex Efficiency
Oxera	Business Support Efficiency

### **4.3 Business plan narrative and commentary**

The commentary and business plan publications have also been subjected to an assurance process. The key commentary was completed by the accountable managers as part of their table preparation process. This was signed off by a senior manager at the table sign off stage. Table commentaries were then reviewed by an appropriate internal expert reviewer.

The business plan publications have used the same core information but have been written to ensure that our customers and stakeholders can clearly understand the key elements of our plan and the implications for them. A separate exercise to check for consistency of numbers across all documents (and against the numbers in the tables) was completed.

Both of these publications have been assured by our internal expert reviewers and approved by as part of the WJBP approval process.

### **4.4 Plan On A Page**

The plan on a page represents a customer friendly, high level factsheet summary of our business plan. There are several key elements which are included in the document. The assurance processes are described below.

- Key facts about our network – the data in this section is contained in the data tables. These numbers have been assured through our processes for the business plan tables.
- What we plan to do – this section is summarised from our outputs and deliverables section of our business plan submission. These documents have been reviewed via our internal challenge process.
- How will our plan be financed – the key cost of capital numbers and notional gearing percentages are average values for the eight years and are taken directly from the price control financial model input sheet.
- How much we propose to spend – all of the network expenditure and operating cost values are taken from the M1b and T1 Total Pensions tables. These have been assured through the wider business plan assurance process.
- How this will impact domestic customer bills – we have used the business plan outputs to populate a Common Distribution Charging Methodology model in order to provide price estimates for domestic customers. This model is governed by the prescribed industry rules. To ensure consistency of approach, our internal team who run the regular model updates have produced the RIIO-ED1 models and the same internal sign off process was followed.
- We have undertaken internal expert review of the population of Plan On A Page from the data tables.

### **4.5 Price Control Financial Model**

The Price Control Financial Model (PCFM) has been developed by Ofgem from the RIIO-GD1/T1 financial models. The DNOs have reviewed the model's appropriateness for the electricity distribution price control.

The primary inputs to the PCFM are based on the summary tables in the business plan data pack. The assurance process for these tables is discussed in section 4.2. The input assumptions for the financial modelling (cost of equity, gearing, capitalised totex, allocation to tax pools etc) were based on financeability modelling, internal and external challenge. The final assumptions were approved and signed off by the Board.

#### **4.6 Cost Benefit Analysis**

Our cost benefit analysis (CBA) work was conducted by our network investment team using the methodology and models circulated by Ofgem. The analysis has been attached in the relevant sections of the business plan. The CBAs have been challenged by an internal expert reviewer and senior managers.

#### **4.7 Investment Programme Approval and Scheme Paperwork**

Investment projects are normally developed and approved in line with the governance arrangements outlined in our Internal Control Manual (ICM).

For the purposes of the submission, we have created supporting scheme papers some time in advance of the usual construction timescale. To facilitate this, we have adapted and expanded a form of our 'Needs' approval paperwork that would normally be presented relatively early in a scheme's life requesting sanction to spend monies developing detailed solutions which would be presented for subsequent approval.

As these proposals have not gone through the 'normal' project approval process, they have been signed, reviewed and counter-signed by:

- 1) The scheme's author
- 2) The scheme author's manager, and
- 3) The senior manager responsible for that area of the programme.

In addition, all scheme papers have been reviewed and signed by a nominated Specialist Reviewer to check they are compliant with Ofgem's requirements and consistent with the re-submission in all aspects (eg unit costs, Output projections, investment profiling).