

SP Energy Networks 2015–2023 Business Plan

Updated March 2014

Annex

Changes to Our Plan

SP Energy Networks

March 2014



**SP ENERGY
NETWORKS**

Changes to Our Plan

March 2014

Issue Date	Issue No.	Document Owner	Amendment Details
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1.	Scope	3
2.	Table of linkages	3
3.	Introduction	3
4.	Our Approach	4
5.	Reductions to Costs	6
6.	Additional Annexes for Stakeholders	7
7.	Changes at Business Plan Data Table (CV table only) Level	9
8.	Appendix A – CV Table Changes	13

1. Scope

This document describes at a high level what has changed between our July 2013 RIIO-ED1 plan submitted to Ofgem for the Fast Track submission and our March 2014 Normal Track plans.

This is intended to provide a high level reconciliation for stakeholders. Further detail on what has changed within our plans is provided in our main business plan and supporting annexes listed below.

We also provide a detailed table providing cross reference to the Business Plan Data Tables specifically for Ofgem's purposes.

2. Table of linkages

This strategy supports our ED1 Business Plan. For ease of navigation, the following table links this strategy to other relevant parts of our plan. Linkages to the specific areas of our plan which have changed are detailed in section 4.

Document	Chapter / Section
SP Energy Networks Business Plan 2015-2023	Chapter C5 – Outputs – d. Environment
SP Energy Networks Business Plan 2015-2023	Chapter C6 – Expenditure
SP Energy Networks Business Plan 2015-2023	Chapter C9 – Financing
SP Energy Networks Business Plan 2015-2023	Chapter C10 - Our Revenues & Impact on Customer Bills
SP Energy Networks Business Plan 2015-2023 - Annexes	Annex C5 – Environmental Strategy – SPEN
SP Energy Networks Business Plan 2015-2023 - Annexes	Annex C6 – Expenditure Supplementary Annex – SPEN
SP Energy Networks Business Plan 2015-2023 - Annexes	Annex C6 – Real Price Effects 2014/15 to 2022/23 – First Economics
SP Energy Networks Business Plan 2015-2023 - Annexes	Annex C6 – Cost Assessment, Efficiency and Benchmarking – SPEN
SP Energy Networks Business Plan 2015-2023 - Annexes	Annex C6 – Cost Benefit Analysis – SPEN

3. Introduction

This annex describes at a high level what has changed between our July 2013 RIIO-ED1 plan submitted to Ofgem for the Fast Track submission and our March 2014 Normal Track plans.

This provides more detail of the reduction of c£450m of controllable costs and additional efficiency removed from our July 2013 plan.

It also sets out the additional single subject annexes that we have produced to enable stakeholders to more easily access the information that is important specifically to them.

4. Our Approach

We have responded to the challenge that Ofgem has set us; improving our submission by:

- *Further updating our costs and volumes in the light of latest information, delivering some £450 million pounds of further reductions to our controllable costs.*
- *Using the latest Ofgem information to demonstrate that our costs in many areas are already more efficient than the fast tracked company or the expert view.*
- *Ensuring we build a stronger case to justify important elements of our plan that our stakeholders have told us are key*
- *Providing additional information to help Ofgem to make fully informed decisions on investment volumes, particularly where these are higher due to criticality and asset life cycle*
- *Remaining committed to our original output commitments to customers*

These changes mean that our business plan has changed throughout both the published plan and the Business Plan Data Tables provided to Ofgem. Key changes include:

Area	Change	Impact	Additional information
Customer Bill Impact	Reduced totex and updated financial assumptions impact average domestic customer bill impact (5 year average 2010-15 vs 8 year average 2015-23)	Previous: -8% SPD and -12% SPM Now: -11% SPD and -18% SPM	Chapter C10 - Our Revenues & Impact on Customer Bills
Outputs	We have clarified our outputs to provide a specific carbon footprint target	15% reduction in carbon footprint by 2023	Chapter C5 – Outputs – d. Environment Annex C5 – Environmental Strategy – SPEN
Financing our plan	We have updated our financial assumptions to reflect latest information and outputs of financability modelling	Cost of Equity changed from 6.7% to at least 6.4% 8 year transition to 45 year depreciation life	Chapter C9 – Financing Annex C9 – Financing Our Plans – SPEN
Delivering Value for Money	New section added to plan	Demonstrates our plan has greater shareholder risk and delivers more value for money, both relative fast track companies	Chapter C10 - Our Revenues & Impact on Customer Bills
Expenditure	Core controllable costs reduced	c£450m reduction	Chapter C6 – Expenditure Annex C6 – Expenditure Supplementary Annex – SPEN
	Real price effects forecasts updated	Increase from c3% to c5% of totex (fast track >8%)	Chapter C6 – Expenditure – i. Real Price Effects Annex C6 – Real Price Effects 2014/15 to 2022/23 – First Economics
	Non Activity Based Cost forecasts updated (Tax, rates, etc)	Increase c£120m in these external costs	Chapter C6 – Expenditure Annex C6 – Expenditure Supplementary Annex – SPEN

	Supported by new more detailed expenditure annex	200 page annex providing more detailed information	Annex C6 – Expenditure Supplementary Annex – SPEN
	Cost assessment, efficiency and benchmarking	New section and supporting annex providing detailed information on the relative efficiency of our plan	Chapter C6 – Expenditure – m. Cost Efficiency and Benchmarking Annex C6 – Cost Assessment, Efficiency and Benchmarking – SPEN
	Cost Benefit Analysis has been extended	CBAs now provide 70% coverage of load and non load investment programmes including loss reduction and smart metering	Chapter C6 – Expenditure Annex C6 – Expenditure Supplementary Annex – SPEN Annex C6 – Cost Benefit Analysis – SPEN
	Asset Criticality Modelling	Extended to 100% of HI assets	Chapter C6 – Expenditure Annex C6 – Expenditure Supplementary Annex – SPEN Annex C6 – Asset Health and Criticality Strategy – SPEN
SP Manweb Special Case	Additional technical/ econometric evidence linked to detailed business plan tables	More clearly explained £128m additional costs directly linked to business plan data tables	Annex C6 – Expenditure Supplementary Annex – SPEN Annex C6 – SP Manweb Company Specific Factors – SPEN
Innovation	Lower assumptions for Low Carbon technology update reduce the opportunity to embed benefits of innovation in our plan. Industry leading levels of innovative solutions to manage LCT update maintained on smaller volumes.	Benefits of innovation embedded in plan reduced from £100m to £70m	Annex C6 – Expenditure Supplementary Annex – SPEN

5. Reductions to Costs

We have **reduced our core costs by £450m without reducing our outputs**. Taking account of movements in costs outside our control, **our total plan has reduced by £300m**.

	Category of cost	£m	Cost and efficiency drivers
July 2013 Plan	July 2013 Total	5155	Page 127 July 2013 plan
	Non Price controlled costs	-116	Technology trials removed for consistency
	<u>Price Control costs</u>	5039	
Movements in core costs	Load Related Expenditure	-73	<ul style="list-style-type: none"> - Lower forecasts of low carbon uptake - Retaining industry leading levels of innovative interventions - Lower general load growth forecasts - Updated energy efficiency assumptions
	Non Load Related Expenditure	-272	A number of changes across asset replacement programme including <ul style="list-style-type: none"> - Reduced 132kV unit costs and scope of works - No changes to main unit costs at other voltages - These are more efficient than fast track company - Rebalancing overhead line replacement vs refurbishment - Refined approach to resilience to deliver same output at lower cost - More efficient solution identified for operational scada renewal - Including reprofiling of expenditure into ED2
	Network Operating Costs	-32	<ul style="list-style-type: none"> - Updated fault costs and volumes - Reduced scope of I&M to reflect industry best practice
	Closely Associated Indirect costs	-82	<ul style="list-style-type: none"> - Updated recruitment and training costs to reflect industry standard - Updated training costs to reflect last 9 months actual costs - Further challenge on CAI costs (moving to 30% below current levels)
	Business Support Costs	-3	<ul style="list-style-type: none"> - Updated costs (note 32% below current levels)
	Smart Metering	8	<ul style="list-style-type: none"> - Reflecting latest Ofgem guidance on volume of cut out changes - Needed to facilitate the smart metering roll out
	<u>TOTAL</u>	<u>-454</u>	
Movements in other costs	Streetworks reopener	11	<ul style="list-style-type: none"> - Reflecting latest information on local and devolved government plans
	Real Price Effects	35	<ul style="list-style-type: none"> - Updated to reflect latest econometric indices
	Non Activity Based Costs	109	<ul style="list-style-type: none"> - Updates to tax, rates, transmission charges, legacy pension costs
	<u>TOTAL</u>	<u>155</u>	
March 2014 Plan	<u>TOTAL</u>	<u>4740</u>	Reduction of £300m driven by a reduction in core costs of £450m

6. Additional Annexes for Stakeholders

We have provided the following new additional annexes to assist stakeholders with particular interests to more easily find the information they need in one place. We have also updated a large number of our existing annexes to use the latest information available to us.

A full list of all our annexes is available in our main business plan - **SP Energy Networks 2015–2023 Business Plan**.

Area of Plan	New or Updated	Annex Title
Aii Executive Summary	New	Annex Aii – Changes to Our Plan – SPEN
	Updated	Annex Aii – Plan on a Page – SPEN
B2 Our Challenges	New	Annex B2 – Letter Regarding Storm Response – Fergus Ewing MSP
B3 Stakeholder Engagement	Updated	Annex B3 – Stakeholder Engagement – SPEN
	Updated	Annex B3 – Stakeholder Engagement Further Detail – SPEN
	New	Annex B3 – Stakeholder Panel Scoping Phase - Final Report – 3KQ
C5 Outputs and Incentives	New	Annex C5 – Black Start Capability – SPEN
	Updated	Annex C5 – Customer Satisfaction Strategy – SPEN
	New	Annex C5 – Environmental Strategy – SPEN
	New	Annex C5 – Losses Strategy – SPEN
	New	Annex C5 – Social Obligation Strategy – SPEN
C6 Expenditure	New	Annex C6 – Expenditure Supplementary Annex – SPEN
	New	Annex C6 – 11kV Substation Plant Strategy – SPEN
	New	Annex C6 – 132kV Cable Strategy – SPEN
	Updated	Annex C6 – 132kV Overhead Lines Heat Maps – SPEN
	New	Annex C6 – 132kV Overhead Lines Strategy – SPEN
	Updated	Annex C6 – 132kV Substation Heat Maps – SPEN
	New	Annex C6 – 132kV Substation Plant Strategy – SPEN
	New	Annex C6 – 33kV and 11kV Overhead Line Strategy – SPEN
	New	Annex C6 – 33kV Substation Plant Strategy – SPEN
	New	Annex C6 – Asset Health and Criticality Strategy – SPEN
	New	Annex C6 – BT21CN Mitigation Strategy – SPEN

	Updated	Annex C6 – Civil Strategy and Plans – SPEN
	New	Annex C6 – Cost Assessment, Efficiency and Benchmarking – SPEN
	Updated	Annex C6 – Cost Benefit Analysis – SPEN
	New	Annex C6 – Data Assurance Strategy – SPEN
	New	Annex C6 – Heat pump and energy efficiency scenarios – Frontier Economics
	New	Annex C6 – LCT Network Monitoring Strategy – SPEN
	New	Annex C6 – Legal and Safety Strategy – SPEN
	New	Annex C6 – Load Related Investment Strategy – SPEN
	New	Annex C6 – Long Term Strategy – SPEN
	New	Annex C6 – LV Overhead Line Strategy – SPEN
	New	Annex C6 – LV Plant Strategy – SPEN
	Updated	Annex C6 – Non-Operational IT and Telecoms Strategy – SPEN
	Updated	Annex C6 – Operational IT and Telecoms Strategy – SPEN
	New	Annex C6 – Protective Equipment and Supporting Systems Strategy – SPEN
	New	Annex C6 – Real Price Effects 2014/15 to 2022/23 – First Economics
	New	Annex C6 – Report on Network Size P3 & 4 Assets – PA Consulting
	New	Annex C6 – Rising Mains and Laterals Strategy – SPEN
	Updated	Annex C6 – SP Manweb Company Specific Factors – SPEN
	New	Annex C6 – Transform Model Analysis and Support – EATL
C7 Business Readiness	Updated	Annex C7 – Innovation Strategy – SPEN
	New	Annex C7 – Smart Grid Strategy - Creating a Network for the Future – SPEN
	New	Annex C7 – Smart Meter Strategy – SPEN
C8 Risk and Uncertainty	New	Annex C8 – Risk and Uncertainty – SPEN
	Updated	Annex C8 – Risk Modelling for RIIO-ED1 – NERA
C9 Financing	Updated	Annex C9 – Financing Our Plans – SPEN
	New	Annex C9 – The Cost of Equity for Scottish Power's Distribution Network Operators at RIIO-ED1 – NERA

7. Changes at Business Plan Data Table (CV table only) Level

In preparing this resubmission, a number of changes have been made to the Business Plan Data Tables. **The comments in this document are not exhaustive as they condense the detailed commentary that has been included in the relevant Tables Narrative.**

For ease of reference by Ofgem we have provided more specific comments on individual movements at a line by line level in the CV tables in **201403_SPEN_ChgsToOurPlan_AppA_CVTableChgs_JM.xlsx** (confidential spreadsheet provided).

CV2: ESQCR

- *We have amended all volumes of LV ESQCR hazards to take account of further updates to our corporate systems, following further on-site inspections and work programme activity.*
- *We have moved all of our HV ESQCR hazards from the 'reconductoring' line to the 'rebuild' line as RIGs, state that 'reconductoring' is for the resolution of hazards via the use of insulated conductor.*

CV3: Asset Replacement

- *The 132kV switchgear costs have been reviewed and disaggregated across additional categories.*
- *132kV cable costs associated with asset replacement have been reallocated to the relevant plant items.*
- *33kV Grid CBs which are SPT assets have been removed from the plan in SPD.*
- *HV Transformer volumes and costs have been reduced in both SPM and SPD to reflect our updated OHL programme.*
- *HV Circuit Breaker work plan has reduced in SPD.*
- *HV Primary and secondary CB plans were reviewed, resulting in a small downward adjustment for SPD.*
- *Pole Mounted Switchgear PM volumes have been adjusted down to reflect our updated OHL programme.*
- *LV OHL planned asset replacement activity on the LV overhead line network has been reduced. This figure is a consistent rate from DR5 due to the re-forecast of our LV ESQCR programme for ED1, which has resulted in an increase in that work activity (detailed in table CV2). This has changed our investment level for two reasons:*
 - *Our ESQCR programme on the LV network is due for completion by 2020, as agreed with the HSE. This will affect our resourcing capability for LV overhead line activity as this programme escalates during ED1 (clearing ~90,000 hazards in both areas).*
 - *The ESQCR programme will also deliver ancillary network modernisation benefits (i.e. HI5 pole replacement and re-conductoring) in the process of resolving our outstanding hazards (although these are not accounted for in table CV3).*
- *Costs for protection are now included in CV5 (EHV Protection) and for communications are now included in CV105 (Communications for Switching and Monitoring)*
- *The volume of fault throwers we plan to replace is reduced*
- *For Overhead lines, there is a significant movement in the number of fittings to be replaced and a reduction of conductor replacement. This equates to 1 circuit (A Line – Frodsham/-Dutton/Moore) being deferred unit ED2 and the requirement to replace towers Q159-163 of overhead line on the Q/AH route with an underground cable.*
- *We have also reassessed our allocation of common project costs between asset replacement and refurbishment during fully integrated projects. This resulted in a net transfer from Replacement CV3 to Refurbishment CV5. Unit cost benefits in the current DPCR5 programmes have been reflected into our RIIO ED1 projects.*
- *We have altered our 33kV conductor and pole replacement volumes on EHV Steel Tower Overhead Lines due to a re-evaluation of engineering specifications. We have changed our forecast rate of asset replacement (disposals of all conductor and wood poles) to be more cost effective.*
- *LV cable volume additions have reduced due to a reduction in LV OHL Modernisation*
- *HV cable volume additions have reduced due to a change in our approach to poorly served customer investment to focus on improving OHL spur line performance rather than underground cable.*

- 132kV cable volume has reduced with changing assumptions for 132kV cable required at 132kV substations and cable associated with plant replacement cost removed from cable row and included in 132kV switchgear cost.
- UG and OH Pilot costs have been reallocated to correct categories

CV5: Refurbishment

- To reflect current issues with the HA/EK route the associated outputs from this circuit have been re-profiled. As a result, 70.5km will provide outputs in DPCR5 and the remaining 27km will be delivered early in ED1.
- To reflect the latest condition assessments, 132kv transformer refurbishments have increased while 33kV transformers have decreased in SPM.
- 11kV RMU refurbishments have been added to the plan; adding 900 RMU refurbishments with an expenditure of £1.29m.
- 11kV CB volumes are the same, however the scope of works has been reviewed, and the costs have increased marginally.
- Volumes for 33kV and 11kV pole refurbishment have been reduced following a re-assessment of our intervention forecast, based on our DR5 outputs, and having analysed more comprehensive asset Health Index data that we have gathered during our accelerated 2-year inspections
- We have reduced our LV pole refurbishment volumes to take account of the increased LV OHL work requirements for our ESQCR programme (based on existing HSE commitments), which will place a constraint on the volumes of asset refurbishment through our Village Modernisation programme.

CV6: Civils

- HV substation changes in volumes and expenditure are driven by an updated forecast, based on the latest inspection data held in our corporate systems.
- 132kV & 33kV Substations changes in volume and expenditure due to enhanced scope of works and disaggregation of costs.
- Under our previous submission link box lid replacements were reported under CV5 – Line 11. This activity has now been moved into CV6.
- Cable Tunnels & Bridges expenditure increases due to updated condition data.

CV8: Legal & Safety

- Legislative changes in scrap dealerships in England and Wales have driven a decrease in metal theft in the SPM licence area, our forecast costs associated with metal theft reflect this.
- Rise of Earth Potential costs and volumes which were previously included on the “Others” category; are now included in “Earthing upgrades”
- OHL defect volumes and associated total expenditure have increased for SPD and SPM as ESQCR hazards unrelated to regulations 17 and 18 have been transferred from table CV2 into CV8. Coupled with a re-assessment of our volume/cost forecast based on our overhead line inspection detailed data. These changes represent an increase for SPD, and a smaller increase for SPM.

CV11: Resilience

- Changes are primarily driven by a review of our options for delivering BSR to 132kV substations. We will decrease the number of diesel generator installations and increase the number of high capacity battery installation. We also see a reduction in unit cost based on work in our SPT programme of resilience and procurement benefits.
- There is a reduction in expenditure across 33kV substation sites in SPD, and SPM as we will no longer be investing in diesel generator resilience solutions at 6 operation muster locations. These changes are driven by a review of our strategy to focus on operational solutions around substation with pre-existing resilience or by taking advantage of the ED1 diesel generator installations at 132kV substations as outlined above.

CV12: Environmental Investment

- *Noise reduction volumes have increased and costs previously shown as “losses reduction” have been reallocated.*
- *SF6 leakage has been updated in line with the switchgear programmes.*

CV13: Inspections and Maintenance

- *SPM Tower painting has reduced as refurbishment costs are now captured in CV3.*
- *Fused Neutrals costs are being captured against LC Cut out inspection in CV 13.*
- *SPM Secondary substations inspections split of third party and non-third party adjusted after review.*
- *Maintenance costs reduced following a policy and activity review.*
- *OHL defects reduced to reflect our refurbishment strategy.*
- *LVUG pillar and OHL inspection unit costs inspection cost increased due to increased inspection scope.*
- *33kV Pole and Tower inspections have been disaggregated.*
- *11kV X type RMU attributed to Y type for SPD*
- *Service Position cut out inspections have been allocated to LV cut outs rather than LV services and underground cable.*

CV14: Tree Cutting

- *Compared to the previous submission, there have been adjustments made to the volumes of ‘spans inspected’ for ENATS 43-08. These have been adjusted to align with our latest network size data. Additionally, in compliance with the RIGs, we have included all spans inspected per annum, regardless of whether they have been cut.*

CV15a: MTP all incidents

The incident volume and costs for several incident types have been recalculated for 2011 and 2012 (SPD and SPM). Compared to the previous submission, the movements in the data tables as a result of the revision/recalculation have been identified as follows:

- *The volume of LV Services Underground incidents has increased (SPD).*
- *The volume of LV Network UG Cables (Non-CONSAC) incidents has reduced (SPD).*
- *The volume of 132kV Supply Restoration By Onsite Switching incidents has been reduced (SPM).*
- *The volume of 132kV UG Cables (Pressure Assisted) incidents has been reduced (SPM). The unit cost of this incident type has also been reduced. The total direct cost has reduced as a result of these movements.*
- *The volume of 132kV All Other Plant & Equipment incidents has been reduced (SPM). The unit cost of this incident type has also been reduced. The total direct cost has reduced as a result of these movements.*
- *The volume of LV Services Underground incidents has increased (SPD).*
- *The volume of LV Network UG Cables (Non-CONSAC) incidents has reduced (SPD).*
- *The volume of LV OH Lines incidents has been reduced, to reflect investment.*
- *The volume of LV All Other Plant & Equipment incidents has been reduced, to reflect investment.*
- *The volume of HV OH Lines incidents has been reduced, to reflect the level of investment.*
- *The volume of 132kV Supply Restoration By Onsite Switching incidents has been reduced (SPM). A unit cost for this incident type has been added where none was reported previously. The total direct cost has increased as a result.*
- *The volume and unit cost of 132kV UG Cables (Pressure Assisted) incidents has been reduced (SPM).*
- *The volume and unit cost of 132kV UG Cables (Non-Pressure Assisted) incidents has been reduced (SPM).*
- *The volume of 132kV OH Lines incidents has been reduced (SPM). This is partially offset by an increase in unit cost.*
- *The volume and unit cost of 132kV All Other Plant & Equipment incidents has been reduced (SPM).*

CV17: Connection Summary

- *In the LVSSA and LVSSB market segments volumes and costs were updated based on actual results for 2013 with the forecast over the period of the plan assuming a constant forward market. In the LVAL and LVHV market segments both the volumes and costs were amended to take account of the volume of acceptances experienced during the period from June to November 2013. In the case of all market segments volumes were increased to reflect an anticipated increase due to the clearance of closed projects in 2014. The opportunity has also been taken to update some anomalous MPANS recorded in the original submission. A 1% annual reduction in costs was also applied across all market segments.*
- *Unmetered Local Authority connections have been investigated to help understand the increase which occurred after 2013 and was sustained throughout the period of the plan. As a result of these investigations and to reflect third party activity adjustments have been made. The costs relating to the ED1 period include a 1% annual reduction.*

CV101: Reinforcement and DSM payments and CV102: Reinforcement (LIs)

- *Since our July 2013 submission we have undertaken a review of the SPD and SPM network. This review has been based on the latest 2012/13 system demand data and has included the following updates:*
 - *Background and LCT demand forecast*
 - *National Grid system model data (based on annual data exchange)*
 - *Substation/group firm capacities*
 - *Capacity added by proposed ED1 reinforcements*
 - *Capacity added by DPCR5 reinforcements*
 - *Revised ED1 reinforcement proposals*
- *The network review has resulted in an improved ED1 Load Related Plan. This includes a number of changes to Substation groups which are commented on in the Table Narrative. The Plan also delivers a modest change in the 2023 Load Index position (with interventions) detailed in our July 2013 submission with SPM showing LI-4/LI-5 Load Index improvements.*

CV103: Reinforcement (LCTs)

- *There has been a significant reduction in SPEN's best view of the anticipated uptake of LCTs which is now much closer to the DECC "Low" scenario.*
- *Our energy efficiency assumptions have been revised to a less optimistic view after comparison with the government's efficiency targets and current market conditions.*
- *The unit costs of the most popular conventional solutions in the TRANSFORM model have been revised to ensure they are in line with SPEN's unit cost manual.*
- *The 10% optimism bias in the TRANSFORM model has been removed from conventional solutions.*

CV105: Operational Information Technology and Telecoms exc. BT21CN

- *Cyber Security Costs previously captured in this table are driven by protection of Critical National Infrastructure (CNI) and have been moved to this CNI table CV11.*
- *All standalone Smart Grid initiatives have been moved to other investment tables appropriate to their specific investment drivers*
- *The Central Control System Software Modernisation Scope has been reduced from a full system replacement in the previous submission to a major upgrade to the existing Control System in the current business plan.*
- *The RTU replacement programme programmes in both SPD and SPM have been partially deferred into ED2.*
- *Communications Service Provisioning Costs for the removal of Fault Throwers from the network have been included in this table, previously these costs were recorded against "33kV Switchgear Other", table CV3.*

CV109 Smart Meters

- *The main change in the smart meter costs is the increase in the forecast number of smart meter related cut-out changes to align with 2% in Ofgem guidance*
- *There is an increase in "Smart meter data transaction- fixed" costs in DPCR5, driven by information from the DCC, that DCC fixed charges will be higher than previously expected*
- *There is a reduction in "Smart meter data transaction- variable" costs, driven by the 1 year delay introduced to the smart meter rollout plan.*

8. Appendix A – CV Table Changes

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