

Cost survey *pro forma* – guidance for completion

Purpose

The Third Consultation document in the Transmission price Control Review (TPCR) process, due for publication in March 2006, will describe Ofgem's preferred option for enduring offtake arrangements from those described in the December 2005 consultation document. This decision will be informed by a quantified cost benefit analysis, evaluating the NPV impact of the different high-level options presented in the Second consultation document in December 2005¹ relative to the status quo (as defined by the transitional offtake arrangements).

In developing the March consultation document, Ofgem will therefore need to consider the costs that would be incurred should each of the alternative options be implemented. To this end, Ofgem has developed a pro forma through which relevant and detailed information regarding potential shipper and TCC (Transmission Connected Customer) costs can be provided to Ofgem.

This document:

- outlines the principles that have been applied in developing this pro forma;
- provides high-level guidance to ensure consistency of approach across submissions; and
- provides an overview of the information requested within the pro forma as well as more detailed completion guidance.

Principles

The attached pro forma has been developed to enable Ofgem to gain an understanding of the implications of each of the high-level options for enduring offtake as outlined in the Second Consultation document in December 2005.

This pro forma has been developed to ensure high-level consistency across submissions, whilst recognising the differing characteristics of shipper and TCC businesses and therefore allowing some freedom in the format and disaggregation of detailed cost data and assumptions provided.

Ofgem recognises that in order to provide detailed and consistent cost estimates, shippers and TCCs need to understand, at a high level, the implications of the specific arrangements proposed for their businesses. In order to do this, a separate assumptions document has been prepared (included as part of this set of documentation) that summarises the arrangements proposed under each of the options presented in the December 2005 consultation document. Ofgem considers this should provide sufficient information for respondents to provide an initial assessment of the cost implications of each of the proposed models for enduring offtake arrangements.

Ofgem recognises, however, that as the options for offtake arrangements are developed in more detail, further analysis will need to be undertaken to develop a more accurate view of the impact of the proposed arrangements. As such, Ofgem envisages that a further impact assessment will be performed as the detail of Ofgem's preferred option is further defined.

¹ *Transmission Price Control Review Second Consultation*, Ofgem, December 2005, 277/05

High-level guidance

When completing the *pro forma*, respondents should:

- consider the potential impact on ***their business alone*** – the costs incurred by other shippers or TCCs, the agency, National Grid NTS, the DNs or Ofgem should not be estimated as part of this submission;
- consider the potential impact in terms of the ***incremental costs of implementing*** the changes proposed only – please do not include a quantification of the expected change in your business’s net financial position as a result of an expectation of changes to risks or charges faced as a result of the proposed reform;
- estimate the costs incurred ***relative to the transitional arrangements***, and as such ‘net off’ any benefits that may result from implementation of the proposed framework, for example, if the proposals require an additional 2 FTEs, yet replace a current process requiring 1 FTE, then the net impact is an additional 1 FTE. Furthermore, net benefits should be expressed as negative figures;
- ***where certain key decisions have yet to be made***, please provide an estimate of the costs imposed by the ***lowest cost solution***, with estimation of the additional costs that would be incurred, should a more costly solution be adopted, provided in the commentary;
- provide ***separate cost information for each jurisdiction in which they operate*** (e.g. shippers that arrange for the transportation of gas both within GB, and across an interconnector should provide separate cost submissions for both of these operations);
- provide cost estimates that represent the ***most likely outcome*** i.e. base case / median estimates – any worst case scenarios and assessment of risks should form part of the detailed commentary provided;
- distinguish between ***implementation (one-off)*** and ***ongoing costs***;
- ensure that the costs of introducing new systems and processes are only included where the introduction of such measures is ***efficient and necessary***;
- submit costs in thousands of pounds (***£k***), specified in 2006 prices; and
- ***provide sufficient detail*** i.e. disaggregation of cost data / documentation of assumptions to allow an understanding of the derivation of high-level estimates, ideally providing:
 - cost drivers i.e. what causes costs to change; and
 - a break down by cost category as appropriate as well as a more detailed explanation of what the costs represent.

We also request that respondents who ship gas through the interconnectors should indicate separately in their cost submissions the costs that they forecast would be incurred by their businesses both:

- in the event that agency arrangements were established to represent requests for NTS offtake capacity rights for parties at each interconnector; and

- in the absence of any such agency arrangements.

Overview of *pro forma*

The *pro forma* has been structured into a number of sections, which include:

- a section on business characteristics; and
- sections for each of the options outlined in the Second Consultation document.

Business characteristics

In the business characteristics section, we ask for a few details to allow the basic characteristics of the business surveyed to be understood. These are sub-divided into:

- TCC characteristics; and
- shipper characteristics.

Please only complete the set of business characteristics fields that you consider apply to your business.

Note that the *pro forma* requests that respondents indicate within which jurisdiction their business operates. We would ask that respondents that operate in multiple jurisdictions complete separate cost *pro forma* for each jurisdiction.

TCC businesses

Relevant data fields include:

- industry in which you are a participant (e.g. power generation, chemical production etc.);
- number of NTS offtake points used by your business;
- approximate total annual offtake of gas from NTS (measured in therms);
- total firm daily entitlement to offtake gas from the NTS across all offtake points; and
- total interruptible daily entitlement to offtake gas from the NTS across all offtake points

Shipper businesses

Data fields include:

- total annual offtake of gas from NTS represented by your business (measured in therms);
- total firm daily entitlement to offtake gas from the NTS represented by your business;
- total interruptible daily entitlement to offtake gas from the NTS represented by your business;

- total number of NTS offtake points represented by your business (including interconnector and storage sites);
- number of interconnector NTS offtake points represented by your business;
- number of storage site offtake points represented by your business; and
- number of NTS offtake points represented by your business with shared supply arrangements.

Note that firm and interruptible capacity held at shared supply points should be included in the aggregate totals of firm and interruptible NTS offtake capacity arranged by your business.

Option specific sub-sections

Separate sections are specified relating to each of Options Ex2, Ex3, Ex3A and Ex4, as specified in the December 2005 Second Consultation.

The assumptions paper details the proposed arrangements in each of these areas, which should be assessed in relation to the transitional arrangements (Option Ex1).

Within each area, the *pro forma* requests information on:

- net up-front implementation costs – these costs should be one-off in nature and non-recurring; and
- the net ongoing annual costs of operating under the proposed framework once they have reached a steady state.

Both the up-front implementation costs and ongoing operations costs are further disaggregated into the following sub-categories:

- IT systems costs;
- staff costs; and
- other.

Where applicable, benefits should be expressed as negative figures.

Further data fields have been added to allow the estimation of staff costs to be more fully understood. The number of additional FTEs required should be provided. The spreadsheet will then automatically generate the average cost per FTE on the basis of the staff cost total and FTE numbers submitted. Please sense check the number generated.

In general, white cells within the *pro forma* indicate cells where formulae such as totals have been hard-coded into the spreadsheet to ensure that the numbers provided reconcile. We would ask that you check the numbers that are generated to ensure that they accurately represent your views. Cells requiring data entry have been colour coded in yellow.

Detailed commentary

The data fields on the *pro forma* have been kept to a small number to reflect the differing characteristics and estimation methodologies of each respondent. However, as a result, it is extremely important that there is sufficient documentation of the estimation methodologies

and assumptions applied to allow Ofgem to understand the key cost drivers and any underlying differences in views between respondents.

We would therefore ask that the commentary provided is as detailed as possible. This can be provided either within the Excel *pro forma* or you may find Word attachments to be more appropriate.

Ofgem would expect the commentary to detail the following:

- **IT systems:** the type of IT systems required, distinguishing between new systems and modifications to existing systems, the functionality of the systems changes, the factors driving this requirement, and the basis / source of the cost estimation. Note that systems costs should only reflect the minimum necessary given the proposals described;
- **Staff costs:** the number of additional staff required (broken down by staff type where appropriate), the factors driving this staff requirement and the skills required, the assumed annual cost of the staff required (by staff type where appropriate), and the basis for the cost estimation;
- **Other costs:** the nature of any other costs incurred, the factors driving these costs and the basis for the cost estimation;
- The **timing / phasing** of the costs proposed i.e. do the one-off implementation costs occur in year one or over a period of time? Do the ongoing costs increase over a number of years before reaching a steady state, and if so, how?
- The key **cost drivers** and breakdown of costs into key cost categories (e.g. customer service or overheads etc) wherever possible, explaining why such costs will be incurred;
- Where an important decision has yet to be reached which would have important implications for costs, an estimation of the **additional costs at risk** should be provided, assuming that the 'worst case' decision is made (specific guidance is provided in certain cases within the assumptions paper);
- **High and low case scenarios** may also be provided, reflecting the potential for variation of the numbers presented (both up and down) and the associated probabilities of these alternative scenarios.

Queries

Should you have any queries regarding the content of this *pro forma*, please contact Matteo Guarnerio on 0207 901 7493 (matteo.guarnerio@ofgem.gov.uk).

Submission deadline

The information requested should be returned to Ofgem, by e-mail, by close of business on 9 February 2006. Please e-mail responses to matteo.guarnerio@ofgem.gov.uk.