

## Gas Distribution Price Control Second Consultation - Supplementary Appendices

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### Overview:

This document contains the supplementary appendices for the Gas Distribution Price Control Review's second consultation document. The supplementary appendices provide more detailed information regarding the issues raised in the main document.

The total revenue of the gas distribution networks (GDNs) is approximately £2 billion per annum. We will be resetting the price control, which specifies the maximum revenue that a network can recover from its customers, for one year from April 2007 and for a further five years from April 2008.

The gas distribution networks have spent considerably more on investing in, maintaining and replacing their networks than was anticipated at the time of the last review. This document sets out the principles for deciding on the extent to which GDNs should be able to recover those costs. It also identifies a range of policy issues which Ofgem will want to consider fully to make sure that the benefits from the recent industry restructuring and the performance of the companies under the current incentive framework are passed back to customers.

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## Context

The price control that currently applies to the gas distribution networks (GDNs) comes to an end on 31 March 2007. The gas distribution price control review (GDPCR) will set new limits on the revenue that may be recovered by a GDN from its customers. As part of this, we will establish a framework that creates incentives for GDNs to invest and operate efficiently, to deliver an appropriate level of outputs and to meet their statutory obligations and licence conditions. GDPCR has three outputs:

- to extend the existing gas distribution price control for one year,
- to set the revised gas distribution price control from 2008-09, and
- to develop a cost reporting framework to apply from 2008-09 onwards.

Price control reviews are the process through which we seek to regulate monopolies effectively and so protect the interests of consumers. GDPCR will build on the approach adopted during previous price control reviews, including the most recent electricity distribution price control review (DPCR4) and the ongoing transmission price control review. In addition we will look to maximise the benefit for consumers of the new industry structure which allows increasingly meaningful comparisons to be made between gas distribution networks owned and operated by independent management teams.

## Associated Documents

- GDPCR initial consultation, December 2005 (Ref. No. 259/05):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13055\\_259\\_05.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13055_259_05.pdf)
- Initial thoughts on the reform of interruption arrangements on gas distribution networks, 16 May 2006 (Ref. No. 85/06):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15065\\_8506.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15065_8506.pdf)
- Open consultation letter: Review of Competition in Gas & Electricity Connections (Ref. No. 81/06):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14834\\_8106.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14834_8106.pdf)
- Electricity Distribution Price Control Review: Final Proposals, November 2004 (Ref. No. 265/04):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9416\\_26504.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9416_26504.pdf)
- Transmission Price Control Review 2007 - 2012: Third Consultation, 30 March 2006 (ref. No. 51/06):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14854\\_tpcr3.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14854_tpcr3.pdf)
- Transmission Price Control Review: Initial Proposals, 26 June 2006 (Ref. No 104/06):  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15505\\_10406.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15505_10406.pdf)

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## Appendix 5 – Responses to GDPCR initial consultation

### Introduction

1.1. This appendix summarises the responses received from gas distribution licensees and other interested parties to the questions posed in the initial consultation document published in December 2005, together with our views. We received 23 responses. Non-confidential responses were received from the following organisations:

- Central Networks,
- Centrica,
- Council for National Parks,
- EDF Energy,
- Energywatch,
- EON UK,
- Fuel Poverty Advisory Group,
- Gemserv,
- GMB,
- HSE,
- Institution of Gas Engineers & Managers,
- National Grid,
- Northern Gas Networks,
- RWE Npower,
- SBGI,
- Scotia,
- Shell Gas Direct,
- Total Gas & Power,
- Valuation Office Agency & Scottish Assessors Association,
- Wales & West Utilities, and
- Xoserve Board.

1.2. Their responses are available on Ofgem's website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

### Responses to Chapter 2 - Background

1.3. In chapter 2 of the initial consultation, we listed projects that are related to GDPCR and asked if there are any other projects that Ofgem should take into account.

### **Views of gas distribution licensees**

1.4. The GDNs identified the following projects as relevant to GDPCR:

- enduring offtake reform, including the arrangements for ARCAs, IExCRs and the GDN capacity booking incentive,
- GDN interruptions reform,
- TPCR - in particular, one GDN suggested that Ofgem's assessment of NGG's shared costs as part of TPCR should be adopted in GDPCR, and,
- the review of competition in connections.

1.5. Furthermore, one GDN suggested that Ofgem should have regard to the Government's Social and Environmental Agenda, fuel poverty, security of supply and the economic outlook for gas in the long term.

### **Views of other respondents**

1.6. Four parties other than GDNs commented on which projects have the potential to affect GDPCR. Several of these respondents identified enduring offtake reform as critical to the delivery of GDPCR. Respondents also identified the consultations on reconciliation by difference, smart metering and the European Measuring Instruments Directive as potentially relevant to GDPCR. One respondent said that Ofgem should have regard to the overall workload created by all our consultations in order to avoid overburdening the industry.

1.7. Two respondents expressed concern over Ofgem's suggestion that the benefits of comparative competition will be built up in future reviews, and one respondent suggested that this was not consistent with the GDN sales final IA. One respondent stated that benefits associated with price control separation should be separately identified and taken into account.

### **Ofgem's views**

1.8. We agree that enduring offtake reform, GDN interruptions reform, TPCR, and the review of competition in connections all have important interactions with GDPCR. In particular, our views on the interaction between GDPCR and enduring offtake reform are set out in chapter 4. Further, in line with our statutory duties, we will also have regard to security of supply, social and environmental issues.

1.9. The impact of Smart Metering and the European Measuring Instruments Directive will be considered in the context of Ofgem's metering price control review.

1.10. A key assumption underlying the GDN sales benefits case was that the rates of improvement that could be achieved by GDNs would follow a bell-shaped profile.<sup>1</sup> This entailed relatively low rates of improvement in the first regulatory period, a higher rate of improvement in the second regulatory period, and a lower rate of improvement in the third regulatory period. Our comment that the benefits of comparative regulation will be built up in future reviews reflects this assumption. During GDPCR, we will seek to develop a regulatory framework that maximises our ability to obtain the benefits of both price control separation and comparative competition.

### **Responses to Chapter 3 - Objectives of the review**

1.11. Chapter 3 listed the proposed objectives for GDPCR. Respondents were asked their views on whether these objectives are appropriate.

#### **Views of gas distribution licensees**

1.12. Most GDNs did not comment on the objectives of the review, however, one GDN expressed support for Ofgem's proposal to consider whether anything more can be done to promote network extensions as part of GDPCR.

#### **Views of other respondents**

1.13. Seven parties provided their views on the appropriateness of the objectives. A number of them expressed support for the objectives identified by Ofgem. In particular, support was expressed for our proposal to examine network extensions. Respondents also suggested that we should consider the following additional issues in the context of GDPCR:

- stability and predictability of charges,
- data quality,
- impacts on IGTs,
- impacts on national parks, and,
- safety, including risks associated with carbon monoxide poisoning, working along the public highway, terrorist attacks and/or loss of supply of imported gas.

#### **Ofgem's views**

1.14. As set out in chapter 1 of the second consultation document, we propose to adopt the objectives described in the initial consultation document. Fulfilling these objectives will involve consideration of the issues identified by respondents. We agree that stability and predictability is a relevant consideration. As we develop our

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<sup>1</sup> National Grid Transco – Potential sale of gas distribution network business Final Impact Assessment – Appendices November 2004 255/04b.

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proposals for the price control, we will consider what impact our proposals will have on charges over time. We aim to improve data quality through work on the outputs of a GDN and the cost reporting project.

1.15. IGTs are primarily affected by GDPCR through the relative price control. To the extent that decisions made in the context of GDPCR affect IGTs through the relative price control, these issues should be addressed through the IGTs' licence conditions rather than the GDNs' price control.

1.16. We will consider national parks and safety in line with our statutory duties.

1.17. The HSE has primary regulatory responsibility for safety and we would therefore expect the HSE, not Ofgem, to be the primary monitor of safety overall in the gas industry and the initiatives deemed necessary to support this. Although Ofgem also has a duty to protect the public from dangers arising from the conveyance or use of gas through pipes, our role here is largely to ensure that the funding allowed for GDNs to fulfil their safety obligations and initiatives is both sufficient and efficiently incurred.

1.18. We have identified a number of mechanisms that could be used to facilitate network extensions to non-gas communities, which are set out in chapter 6.

### **Responses to Chapter 3 - Outputs of a GDN**

1.19. Chapter 3 of the initial consultation document also discussed outputs of a GDN. We asked respondents what we should consider as GDN outputs, what services offered by GDNs are valued by consumers, and what aspects of GDNs' activities give rise to concerns.

#### **Views of gas distribution licensees**

1.20. In general, GDNs emphasised safe, secure and reliable networks as a key GDN output. One GDN recommended that Ofgem and HSE jointly develop safety initiatives such as safety incentive schemes and defined safety outputs. The other outputs discussed included:

- price,
- capacity,
- quality of service,
- asset integrity, and,
- social & environmental responsibilities.

1.21. Furthermore, one GDN stated that outputs should be measurable and the benefits should be balanced with the costs of reporting. Another said that GSOPs and OSOPs should be reviewed as part of GDPCR as they are currently confusing to

consumers. Finally, one GDN expressed support for our proposal to analyse the relationship between changes in capacity and costs.

### **Views of other respondents**

1.22. Nine stakeholders other than the GDNs responded to the issues raised regarding GDN outputs. Respondents identified a wide range of potential outputs of a GDN including pipeline capacity, safety outputs, quality of service outputs (especially with regard to connections and interruptions), gas industry central systems and environmental outputs. Two stakeholders cited keeping consumers informed when things go wrong as an issue. Several respondents agreed that we should try to improve the quality of data on service standards, and that we should review the OSOPs and GSOPs as part of GDPCR.

### **Ofgem's views**

1.23. We will carefully consider the issues raised by respondents relating to outputs. This is an important part of the review. The detail of the work we propose to carry out in this area is set out in chapter 4.

## **Responses to Chapter 5 – Treatment of historical capex**

1.24. In this chapter, we set out the principles behind rolling forward the RAVs for the one year control. No specific questions were posed to respondents.

### **Views of gas distribution licensees**

1.25. GDNs supported our proposal to roll forward the RAVs as part of the one year control. Their responses addressed a range of issues relating to historical capex including:

- allocating historical capex between the three pots,
- adjusting the RAVs to reflect actual expenditure between Jan 2001 and Mar 2002,
- adjusting the RAVs to reflect shared assets,
- extent of the RAV roll forward, and
- the treatment of non-operating capex.

#### *Allocating historical capex between the three pots*

1.26. GDNs favour a broad classification of Pot 3 expenditure. Several GDNs suggested that all mandatory spend should be treated as Pot 3, where mandatory spend includes investment to meet the GDNs' 1 in 20 obligations, safety-driven spend, and connecting new consumers.

1.27. Several GDNs suggested that, given the uncertainty surrounding the different categories of expenditure, we should treat all historical capex as either Pot 1 or Pot 3. Further, one GDN argued that we should not classify any spend as Pot 2 on grounds that Pot 2 "was not consulted upon or agreed".

*Adjusting the RAVs to reflect actual expenditure between Jan 2001 and Mar2002*

1.28. With one exception, GDNs did not support our proposal to adjust the RAVs to reflect actual expenditure for the period between January 2001 and March 2002. Some new GDN owners were concerned that this could undermine the basis on which they valued the business when they negotiated a purchase price.

*Adjusting the RAVs to reflect shared assets*

1.29. Similarly, GDNs did not support our proposal to adjust the RAVs to reflect shared assets.

*Extent of the RAV roll forward*

1.30. One GDN asked us to consider rolling forward the RAV to 31 March 2006 as part of the one year control, rather than updating the RAV to reflect 2005/06 actuals during the main control.

*Treatment of non-operational capex*

1.31. GDNs had mixed views on whether non-operational capex should be treated as opex or added to the RAV.

**Views of other respondents**

1.32. Six respondents commented on our proposals for rolling forward the RAVs. Several respondents suggested that further clarity regarding the treatment of capex overspends was required. One respondent suggested that our proposed approach to classifying capex might in practice lead to an asymmetry in the incentives favouring the GDNs.

1.33. One respondent suggested that we should remove shared assets from the RAV, and instead include an allowance for shared assets in our opex calculations. Another said that where assets are shared between NGG and the GDNs, costs should be allocated across the business in a way that is not detrimental to the businesses or the operation of the shared asset.

1.34. One respondent expressed the view that non-operational capex should be included in the RAV, and another expressed support for a further review of this matter.

1.35. A further respondent requested further clarity on how we intend to prevent increased capex resulting from losses of economies of scale from being included in the RAV.

### **Ofgem's views**

1.36. Ofgem's proposed approach for rolling forwards the GDNs' RAVs based on the assessment of the efficiency of historical capital and non-main replacement expenditure is set out in chapter 3 of the consultation document.

1.37. Ofgem will roll forwards the RAV to reflect actual expenditure for January 2001 to March 2005 as part of the one year control. Ofgem has considered extending the analysis to cover 2005-06, but this is not practical giving the timing of the BPQ returns, costs visits and subsequent analysis required to complete initial proposals by September.

1.38. Non-operational capex was treated as part of capital expenditure in setting the allowances for the current price control. It is important to apply a consistent approach in rolling forwards the RAV for historical expenditure in the current price control period. We propose to retain the existing treatment of non-operational capex for the purposes of the one year control, and consider whether change is required as part of the main control.

1.39. Ofgem consulted on the use of a capex roller (in effect, Pot 2) as part of the work on developing network monopoly price controls and decide to apply capex rollers from 1 April 2003 with a 5 year retention period. This policy was restated as part of the March 2004 open letter on gas distribution price controls.

## **Responses to Chapter 5 – Capex and repex**

1.40. This chapter discussed our proposed approach to the treatment of capex and repex for the one year price control. We sought views on two main issues:

- the appropriate scope of the work on capex and repex, and,
- techniques to assess them.

### **Views of gas distribution licensees**

1.41. The key consultation responses made by one or more GDNs are categorised under repex and capex as follows.

#### *Replacement expenditure*

1.42. One GDN stated that the mains replacement incentive scheme should not be reviewed until the main review however allowance should be made for the large diameter mains to be replaced in 2007-08 and risers. Another GDN suggested that

for the purposes of the one year control, we should limit work on the mains replacement incentive mechanism to re-setting the unit rates and other parameters. This GDN also stated that we should consider whether the mechanism is still required as well as the issue of expensing repex versus shorter regulatory asset lives.

1.43. Furthermore, a GDN cited that arrangements for mains replacement and services should be made consistent, and that services costs need to reflect risers. One GDN suggested that the mains replacement incentive should be linked to a construction price index.

1.44. Finally, as stated by a GDN, repex allowances should reflect the individual needs of the network and allowances should be made to reflect that some of the GDNs' programmes do not have the same economies of scale as NG. This GDN also noted that further assessment should be made regarding the overall length of the programme and the matrix should be reviewed. Furthermore, the service replacement should be funded in the same way as any other capital project and spend rolled into the RAV.

#### *Capital expenditure*

1.45. One GDN said that, given the recent change in ownership of some GDNs, more weight should be attached to forecast than historical spend. Another GDN suggested that forecasts should be based on GDNs' forecasts not NGG's historical forecasts and comparative assessment will be of little value in the assessment of historical spend. A further GDN did not support our plan to request forecast capex data to 2018.

1.46. One GDN suggested that the one year control should establish principles for how capex will be assessed going forward.

1.47. GDNs supported our proposal to use a variety of techniques to determine efficiency. One GDN said that a bottom up analysis of capex would be preferable to variance analysis. Another GDN considered that the efficiency of the GDNs' capex program should be reviewed in aggregate rather than attempting to monitor performance against individual allowances.

1.48. Finally, a GDN expressed the view that in grouping costs, there should be a split between LTS and reinforcement, connections (net of contributions), non-mains replacement and other capex.

#### **Views of other respondents**

1.49. Eight other respondents provided comments on capex and repex, in which five expressed support for our treatment of capex and repex. However, one respondent suggested that there was potential for asymmetry if we carry out a detailed review of capex (where there is an overspend) but not opex. This respondent argued that we

should either do a detailed review or a high level review of everything, and that the one year control should be balanced.

1.50. One respondent advocated the use of forecasts of at least five years beyond the next review to mitigate future risks.

1.51. One party recommended that when comparing networks, we should consider factors such as size, geography, type of consumer, age and size of pipelines and plant. Furthermore, another respondent stated that when assets are shared between NG and the GDNs, costs should be allocated across the business in a way that is not detrimental to the businesses of the operation of the shared asset.

1.52. HSE expressed its openness to continue discussions with GDNs on how they prioritise replacement which may bring efficiency improvements. HSE is considering a policy for the treatment of steel mains which could include replacement programmes and/or provision of effective cathodic protection systems.

1.53. Finally, one respondent stated that provision should be made for equipment to investigate incidents of carbon monoxide poisoning.

#### **Ofgem's views**

1.54. Ofgem's proposed approach to assessing the efficiency of historical capex and non-mains repex in the current price control period is set out in chapter 3 of the consultation document. Ofgem's approach to updating the mains replacement incentive for the one-year control is discussed in chapter 4.

### **Responses to Chapter 5 - Opex (excluding shrinkage, pensions)**

1.55. Chapter 5 also discussed our proposed treatment of opex for the one year price control. Respondents were asked their views on the appropriate scope of work on opex and the approach we should take to set the opex allowance for 2007-8.

#### **Views of gas distribution licensees**

1.56. The GDNs supported a straightforward method in estimating opex for the one year review, so long as adjustments were made for certain items where GDNs are currently under-recovering, such as pensions and shrinkage.

1.57. One GDN expressed their indifference between rolling forward allowances (with no efficiency reduction) and rebasing using actual opex.

1.58. One GDN urged us to consider the arrangements for independent systems.

1.59. Several GDNs expressed concern about potential costs associated with Traffic Management Act (TMA). One GDN argued for an opex allowance for costs associated with TMA which includes an efficient level of penalty payments.

1.60. One of the GDNs also suggested that benchmarking opex would not be meaningful given that for most of the current price control period, the GDNs were shared ownership, and in the years since GDN sales there are likely to be a significant number of atypical costs. This GDN suggested that we should instead develop understanding of actual costs and benchmark a selection of actual activities in a high level matrix. Furthermore, another GDN cited that benchmarking should take into account additional costs associated with operating in London and Scotland.

### **Views of other respondents**

1.61. Ten other parties provided feedback on the opex issues raised in this chapter. Three parties explicitly supported carrying forward the existing opex allowance to 2007-08. One of the other respondents also supported this but with a 2.5% reduction for efficiency. Alternatively, another respondent recommended opex be set at similar levels to what would have been appropriate if the sales had not proceeded.

1.62. Furthermore, a respondent argued that we should not attach significant weight to any one form of cost analysis. However, this respondent suggested that given the recent changes to the industry structure, more weight should be given to forecasts. A suggestion by another party was that detailed cost benchmarking should be replaced with consideration of an economy-wide productivity assumption, as opportunities for efficiency savings are declining.

1.63. Finally, one respondent suggested that we make a specific allowance for GDNs to maintain competence and adequate future resource, given the ageing workforce of GDNs. This respondent also suggested that we make an allowance for training new staff, professional fees and maintenance of technical standards.

### **Ofgem's views**

1.64. Ofgem has set out further thoughts on the approach to setting the GDNs' opex allowances for 2007-08 in chapter 2. This also explains that Ofgem intends to make use of a range of techniques to establish allowances for the main control.

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## Responses to Chapter 5 - Shrinkage

1.65. Chapter 5 sought views on how we should deal with shrinkage costs.

### Views of gas distribution licensees

1.66. The key concern of GDNs with regard to shrinkage was that, going forward, their shrinkage allowances more closely reflect actual gas purchase costs. GDNs suggested a number of potential mechanisms on how to remove GDNs' exposure to gas price fluctuations including:

- some form of pass through,
- an annual reset of shrinkage allowances based on the year ahead forward price,
- a cap on exposure to gas prices, and,
- an approach which incentivises GDNs to outperform a benchmark to gas price (such as a day ahead). Some GDNs expressed concern over this approach.

1.67. Finally, one GDN proposed that we consider providing retrospective allowances for 2005/06 and 2006/07.

### Views of other respondents

1.68. Five other parties provided their views on how we should approach the issue of shrinkage in the one year control. One respondent said that we should only review those areas where GDNs may be under-performing. Another respondent stated that it is appropriate for GDNs to bear volume but not price risk and they should be incentivised to purchase gas efficiently. One party suggested that we should allow specific treatment for shrinkage by setting a one year ex ante allowance for gas costs to help remove some unpredictability. Finally, another respondent said that we should consider the arrangements for apportioning responsibility for the costs associated with shrinkage gas between GDNs and shippers.

### Ofgem's views

1.69. We have addressed the issues relating to shrinkage in chapter 4 of the second consultation document, including the treatment of historical overspends and are consulting on a number of options for revising the shrinkage arrangements going forward.

## Responses to Chapter 5 - Pensions

1.70. Chapter 5 also discussed pensions, and views were invited on whether we should apply the pensions principles as part of the one year control or the main review.

### **Views of gas distribution licensees**

1.71. The majority of GDNs recommended that we adopt the pensions principles as part of the one year control. One GDN recommended a pension allowance which recognises the costs of the Pension Protection Levy in addition to reflecting the pensions principles. Another GDN stated that we should allow recovery of excess costs above those allowed in the current price control period and funding of pension scheme deficits. It was proposed that if the issue of pensions is deferred until the main review, then it may be necessary to make ex post adjustments to the RAV roll forward up to March 2005 (which is being considered as part of the one year control).

### **Views of other respondents**

1.72. Three other respondents expressed their views on the issues relating to pensions. One party favoured pensions being considered as part of the main control. Another supported the continuation of the pensions principles as set out in DPCR4. Other comments included the need for further clarity on the Pension Protection Fund and the continuation of pensions' provision being honoured in full.

### **Ofgem's views**

1.73. As explained in chapter 5, we are putting Ofgem in a position to be able to address the issues surrounding pension costs in setting the one year extension. We will continue to base our assessment of pension allowances on standard Ofgem principles. Further detail is set out in chapter 5

## **Responses to Chapter 5 - Rolling incentives**

1.74. This chapter considered rolling incentives. Views were sought on whether rolling incentives should be applied for capex, repex and opex in the one year control.

### **Views of gas distribution licensees**

1.75. One GDN expressed support for rolling incentives in principle and said that if they are to be applied retrospectively then they should be applied during the one year control. Another GDN –although in favour of opex and capex rollers- argued against retrospective application of capex or opex rollers due to concerns over their practicality.

1.76. One GDN said that at the time of GDN sales, there was clear regulatory guidance that the opex roller would be applied from 2003, and that our commitment to introduce an opex roller from 2003 should be implemented in full as part of the one year control. This GDN stated that given subsequent developments in DPCR4, at

the very least, savings achieved in 2003/04 should be retained for five years consistent with DPCR4.

1.77. One GDN recommended that we agree on enduring incentive mechanisms for capex, repex and opex as part of the one year review with the principles then applied both for the one year and the main reviews. This GDN also suggested that capex savings should be retained for more than 5 years.

### **Views of other respondents**

1.78. Five other parties responded to whether rolling incentives should be applied within the one year control. Two respondents suggested that we introduce five year rolling incentives as part of the one year control. One respondent said that we should introduce rolling mechanisms from April 2003 for capex and opex if cost information is robust and they should be made symmetrical. Another respondent suggested that we retain the current regime for one year control and debate rolling incentives during the main review.

1.79. Additionally, one respondent suggested that GDNs be permitted to retain opex savings for 7 years and capex savings for 5 year in order to remove distortions in investment decisions. As a final point, one respondent stated that the introduction of an opex roller during the one year control will not act as an incentive to improve performance and is much more likely to constitute an unwarranted windfall.

### **Ofgem's views**

1.80. Chapter 4 sets out our views on rolling and other incentives for both the one year extension and the main price control. In particular it addresses the specific issues with applying an operating expenditure roller retrospectively and for the one year extension.

## **Responses to Chapter 5 - Financial issues**

1.81. This chapter set out the financial issues that require consideration for the one year control. Views were invited on a range of issues including cost of capital, tax, financeability and financial modelling.

### **Views of gas distribution licensees**

1.82. GDNs generally supported the use of a post-tax approach to setting the cost of capital in line with the principles established during DPCR4 and emphasised higher risks since the previous control. Some GDNs considered that the move to a post-tax approach should occur as part of the one year control, while others suggested that this issue be addressed as part of the main control. A specific recommendation was that we consider a broad range of techniques for assessing the cost of capital and

that the allowance used in DPCR4 should be the minimum starting point for the cost of capital given higher risks. Another GDN advocated an ex ante approach to setting tax allowances with ex post adjustments for changes in gearing.

1.83. GDNs tended to support a simple approach to assessing financeability, particularly in the context of the one year control. One GDN expressed support for the publication of a full, populated financial model.

### **Views of other respondents**

1.84. Three other parties provided their views on financial issues. When setting the cost of capital, a respondent suggested that we consider the increasing levels of investment in gas networks and other infrastructure. They also said that we should set gearing assumptions that are consistent with ensuring significant equity presence. Another party noted that there are potential customer benefits in a comparative review of cost of capital during the one year control as the new GDNs may be more highly geared than we have traditionally assumed.

1.85. One respondent said that if the post tax cost of capital approach is adopted, we should assess the specific tax liabilities of each of the GDNs in order to ensure the most appropriate cost of capital is used, rather than assume a standard corporate rate.

1.86. One respondent agreed that we should assess financeability by reference to key financial indicators. This respondent suggested that our financial model should be published but confidential information should be protected.

### **Ofgem's views**

1.87. Chapter 5 sets out our views on issues such as cost of capital, calculation of a specific tax allowance and financeability assessments. While our approach to the cost of capital will be consistent with that used in DPCR4, we do not see any basis for using the specific figure arrived at in DPCR4.

1.88. As always, our preference is for transparency and disclosure. We have to be mindful of commercial sensitivity albeit this will be less than for companies which operate in a monopoly environment. This may restrict the data that we are able to publish with the financial model.

## **Responses to Chapter 6 - High level framework**

1.89. This chapter focused on the structure of the current price control and considers whether further refinement is warranted.

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## Views of gas distribution licensees

1.90. All four GDNs advocated the use of a five year price control period. Responses relating to other structural issues are as follows:

- GDNs expressed support for a review of the volume-based revenue driver as part of GDPCR. Several GDNs suggested that the current arrangement, where 35 per cent of revenue is subject to the revenue driver, exposes GDNs to significant risks associated with the weather. One GDN suggested that price variability would be reduced if the revenue driver were aligned with the structure of charges, so that a smaller proportion of GDNs' revenue varies with volume. A further GDN suggested that we consider using a revenue driver based on system capacity,
- GDNs supported the retention of a pass through mechanism for prescribed network rates and licence fees. Some GDNs also suggested a number of other items that could be considered for pass through treatment,
- While three GDNs encouraged the retention of the existing correction mechanism, the fourth suggested that it should be brought into line with electricity transmission - with a band of over-recovery where the base interest rate is applied rather than a penal rate, and,
- GDNs recommended that we consider mechanisms for dealing with uncertainty (e.g. in relation to the TMA), including the introduction of an in-built reopener.

## Views of other respondents

1.91. Seven other respondents commented on the issues raised in this chapter.

1.92. One respondent suggested that, in order to bring forward the benefits of DN sales, we should implement two shorter controls (2007/08-2009/10 and 2010/11-2012/13) and carry out a full review process for both. The respondent suggested that this approach would offer a better balance of cost and risk, for both consumers and GDNs, and would better support the timing of transitional arrangements.

1.93. Three respondents specifically commented on the volume-based drivers and generally supported them. However, one party recommended that the current 65:35 split should be reviewed. Another stated that any adjustment should take account of the EU End User Energy Efficiency Directive.

1.94. With regard to pass through items, one respondent suggested that it may be appropriate to exclude licence fees as pass through items since it is now possible to predict the extent of the fees with some degree of accuracy. In addition, one respondent said that we should not pass through pensions costs. In their response, the Valuation Office Agency and Scottish Assessors Association described recent changes to the arrangements for setting rateable values, and set out their view that we should continue to treat network rates as pass through items. They noted that this approach would be consistent with DPCR4.

1.95. Three respondents supported the notion of incorporating a limited reopener to deal with uncertainty, while a fourth respondent supported the introduction of a capping mechanism to limit the impact of under recoveries on price variability.

### **Ofgem's views**

1.96. As set out in chapter 2, we will review the operation of the volume driver as part of the main control review; however we are unlikely to be in a position to make a decision until the latter stages of the review. We will set out our further thoughts on pass through mechanisms, correction mechanisms and dealing with uncertainty in the third consultation document.

1.97. We do not agree with the suggestion that two three year controls are preferable to a one year control followed by a five year control because:

- this approach would lock in for an additional two years decisions based on 2004-05 data and forecasts prepared by GDNs who at the time had owned the businesses for less than a year. This increases the risk that the outcome will not be as robust as would otherwise be the case,
- the knowledge that any savings were to be taken away after three years could act as a disincentive for companies to introduce efficiencies, in particular with respect to opex where the case for a roller is problematic, with the result that consumers are worse off, and
- this approach would undermine the level of certainty/predictability that we have sought to establish through the conduct of our price control reviews. This could affect the level of risk attributed to GDNs by capital markets.

## **Responses to Chapter 6 - Scope of the price control and excluded services**

1.98. This chapter discussed the scope of the current price control and excluded services. Views were sought on whether the scope of the current price control is appropriate and which services provided by GDNs should be considered as excluded services.

### **Views of gas distribution licensees**

1.99. Items listed by GDNs for consideration as excluded services include:

- revenues that flow from a user pays approach to xoserve if adopted,
- costs associated with the metering supplier of last resort and/or Ofgem's Smart Metering initiative if there are any, and,
- services provided under an exclusion from the de minimis threshold by GTs to other GTs.

1.100. A final point made by a GDN was that we should aim to improve the definition of excluded services with a focus on the type of customer receiving the services rather than the services themselves.

#### **Views of other respondents**

1.101. Three other parties commented on excluded services. One respondent considered the scope of the review appropriate. Another respondent stated that excluded services should not be provided to the detriment of the provision of regulated services. In particular, the provision of training and information services should not be treated as an excluded service if it is associated with interacting with users and others in the energy supply chain. A further respondent suggested that costs associated with xoserve and the Joint Office should not be accorded ordinary price control treatment.

#### **Ofgem's views**

1.102. Our views on the scope of the control and excluded services are set out in chapter 2. We agree that there is scope to clarify the circumstances in which a service is treated as excluded. We will further explore which services are treated as excluded services over the course of the main control. In particular, we will give further thought to the treatment of services provided by GTs on behalf of other GTs.

### **Responses to Chapter 6 - information quality incentive mechanism**

1.103. We are considering whether to implement an information quality incentive mechanism similar to the one developed during DPCR4. Views were sought on this for early decision.

#### **Views of gas distribution licensees**

1.104. The introduction of an information quality incentive was supported by only one GDN. One of the GDNs said that the complexity of such an incentive mechanism outweighs the benefits. Another stated that such a mechanism is unnecessary given the scale of capex in gas distribution.

#### **Views of other respondents**

1.105. Three other parties provided comments on the issues raised on the information quality incentive mechanism. While one respondent expressed support of such a mechanism, another questioned whether it would add any value to GDPCR. The third party emphasised the need for the wider issue of data asymmetry between Ofgem and the GDNs to be dealt with as soon as possible.

### **Ofgem's views**

1.106. We continue to remain open to the use of an information quality incentive, which is discussed further in chapter 4.

### **Responses to Chapter 6 - SOMSAs**

1.107. This chapter discussed new developments surrounding SOMSAs and respondents were asked how we should address them.

### **Views of gas distribution licensees**

1.108. GDNs asked us to provide early guidance on how we propose to treat costs associated with SOMSAs in order to allow them to make a decision on how to exit the arrangements. Several GDNs suggested that, given the long lead times involved, it would be necessary for the Authority to extend its consents under the GT licences. One GDN supported the continuation of the arrangements whereby SOMSA income is excluded from NGG's de minimis cap.

### **Views of other respondents**

1.109. Three other parties made comments on SOMSAs. One respondent said that we should recognise the changes required to the safety cases when considering lead times for setting up the new area control centres. Another respondent suggested that we should scrutinise payments made under the extended SOMSAs. Finally, one respondent said that the new GDNs should begin independent operation of their networks as soon as reasonably possible.

### **Ofgem's views**

1.110. Ofgem has set out its principles for the treatment of gas transportation management system (GTMS) replacement and SOMSA exit costs in chapter 3.

### **Responses to Chapter 6 - Xoserve**

1.111. In this chapter, xoserve and the agency funding arrangements were discussed. All parties were asked if the current xoserve funding arrangements are satisfactory and, if not, whether change should be limited to refinements on the status quo or more substantial reform.

### **Views of gas distribution licensees**

1.112. All of the GDNs were in favour of reviewing xoserve's current funding arrangements. Several GDNs expressed support for some form of a "core service plus user pays" model. Two GDNs suggested that we explore the option of a separate price control for xoserve.

1.113. One GDN said that xoserve's funding arrangements should be urgently reviewed as they expose GDNs to uncontrollable risks and users have no incentive to control costs.

### **Views of other respondents**

1.114. Eight other respondents made comments relating to xoserve. Two parties encouraged the continuation of the existing xoserve funding arrangements, and of these, one explicitly rejected a user pays approach. At the other extreme, one party suggested that competitive tenders for the functions of xoserve and the Joint Office could be carried out prior to 2008 and this should feed into Ofgem's opex assessment.

1.115. One respondent said that the current arrangements should incorporate a greater degree of cost reflectivity into charging. Another respondent said that, subject to the outcome of an IA, they would support reform of the current arrangements.

1.116. Several shipper respondents suggested that users should be given more opportunity to provide more direct input into xoserve's work including systems development. One respondent said that xoserve should bring forward proposals for improvements to processes and systems so that shippers and suppliers can evaluate the proposals and decide if they wish to bear a proportion of the costs.

1.117. Respondents put forward a number of further suggestions for the funding of xoserve, including:

- a sum of money within xoserve's budget should be assigned for use in relation to supplier driven initiatives or work requests,
- Ofgem should introduce an incentive regime linked to agreed KPIs, and
- major IT projects should be approved through the UNC modification process.

1.118. One party said that where xoserve earns unregulated revenue, it is essential to ensure either that it does not use regulated assets to provide unregulated services or, where it does, that a full market value is properly attributed to the regulated business.

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## Ofgem's views

1.119. Our views on the funding of xoserve are set out in chapter 6; however more detailed comments on specific issues raised in responses are set out below.

1.120. Our preliminary view is that there is scope for improvement for the reasons set out in paragraph 6.1 of the main document.

1.121. A small group of respondents supported more fundamental reform than we have proposed in the second consultation document.<sup>2</sup> Given that the current arrangements have only recently come into effect, and most industry participants do not support further major reforms, our preliminary view is that it is not appropriate to compel the industry to carry out further major change at this time. This view is subject to further consultation. We note that nothing in the current regulatory arrangements prevents GTs from choosing to contract out xoserve's functions.

1.122. Our response to the three suggestions set out in paragraph 1.117 is as follows:

- while assigning a sum of money for supplier driven projects has the benefit of focussing suppliers' attention on the costs associated with extra functionality, this approach is inflexible and unlikely to lead to efficient result – either too much or too little will be spent,
- a KPI-linked incentive scheme is a possibility however it does not address the lack of an incentive on users to constrain the costs they impose on xoserve. We will consider this issue in the context of our work on GDN outputs, and
- we consider that changes to governance of major IT projects is beyond the scope of a price control review, however our proposal in relation to the establishment of an industry dialogue will give users the opportunity to become more involved in these decisions.

1.123. In relation to one respondent's comments on the Joint Office, our view is that given its small size, it is inappropriate for Ofgem to require GTs to carry out a competitive tender for the Joint Office functions. GTs could elect to contract out this function if they choose.

1.124. Finally, we agree that where regulated assets are used to provide unregulated services, costs borne by the regulated business should be adjusted downwards. Under a core services plus user pays approach, this would occur.

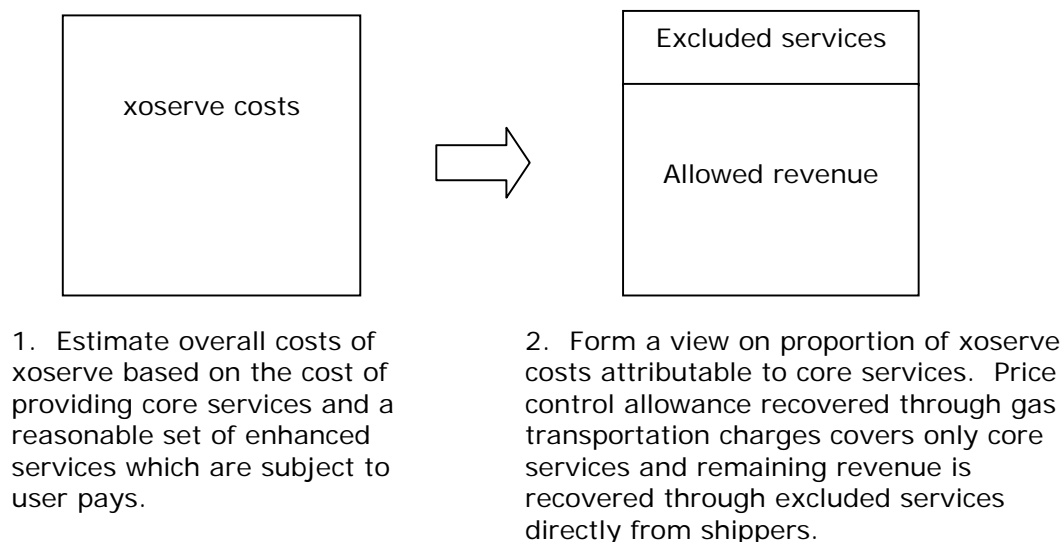
1.125. As the systems underlying gas market processes are complex and inter-related, in practice, it is likely to be very difficult to differentiate between the costs that xoserve incurs in providing core services and the costs associated with user

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<sup>2</sup> Examples of more fundamental reform include creating a separate licensable activity for xoserve's functions, or contracting out xoserve's functions.

pays services. To overcome this, we propose that the price control allowance is determined as set out in Figure 5.1.

**Figure 5.1 - Setting price control allowances under a user pays regime**



1.126. Any xoserve services that are provided using regulated assets would be treated as either core services (funded through allowed revenue) or excluded services. An increase in the level of expected revenues from excluded services would have the effect of reducing the level of costs funded through allowed revenue.

1.127. If xoserve provides commercial services that are wholly separate from its regulated activities, these services would be treated as outside the price control. We expect such services to be ring fenced from its regulated activities.

## Responses to Chapter 7 - Process and timetable

1.128. This chapter outlined the proposed process and timetable for the review, including the use of impact assessments. Respondents were asked if they agreed with the proposals.

### Views of gas distribution licensees

1.129. The majority of GDNs supported our recommended timetable and process although some GDNs expressed concern over the 7 April deadline for the one year control BPQ submissions. All GDNs were in favour of the proposed approach on IAs. One GDN suggested that IAs should include appendices which outline the costs and benefits of different policy options.

### **Views of other respondents**

1.130. Nine other parties responded to the issues highlighted in this chapter. In general, the respondents supported our proposed process and timetable, including IAs.

1.131. One respondent said that we should publish a decision on the cost of capital in the September 2007 update document. This respondent also stated that there should be more clarity on governance and membership of working groups. Another respondent said that any issues arising from the GDPCR working group which directly affect shippers/suppliers should be brought to their notice via the Gas Forum and/or SPAA. Alternatively – as recommended by a further respondent - shippers should be involved in the GDPCR working group, or at least involved in any sub-group discussing key issues (e.g. quality of supply and measurement). One last respondent stated that the cost reporting framework should not be considered at the expense of relevant related projects (e.g. offtake) or shortened consultation periods, and legal drafting could potentially be counterproductive if undertaken when key concepts are only defined at a high level.

### **Ofgem's views**

1.132. We welcome the overall level of support for our proposed process. We have set out our intended approach to IAs in chapter 7 of the main document and welcome any further comments on our use of IAs.

1.133. The GDPCR working group is attended by GDN representatives, Ofgem and Ofgem's consultants. It is used as a forum to progress Ofgem's thinking on detailed price control issues such as the specific cost information that we request in the BPQs.

1.134. We agree that any issues arising from the GDPCR working group that directly affect shippers and suppliers should be brought to their attention. Where appropriate, we will consider convening a meeting (or series of meetings) so that GDNs and other interested parties can discuss GDPCR issues. An example of an issue where we will involve shippers and suppliers is the funding of xoserve.

1.135. We would like to complete the cost reporting framework before the commencement of the next price control period in order to maximise our ability to obtain the benefits of comparative competition for consumers. We would like to have a robust, consistent set of data on which to set the 2013 price control, which is the control where we expect the majority of GDN sales benefits to be achieved. Consequently we would be reluctant to discard this element of our work program.

1.136. We agree that attempting the legal drafting before high level principles are established can be problematic. We intend to focus our drafting work on those areas where a reasonable level of certainty has been achieved.

## Appendix 6 - Stylised example of cost efficiency assessment and RAV roll forward process

1.1. This section sets out a stylised example of the application of Ofgem's proposed process for the cost efficiency assessment and the treatment of capital expenditure. This is illustrated in figure 6.1 (next page).

1.2. Suppose the previous price control included an allowance for the construction of 20,000 units of capex at a total cost of £4 million (£200 per unit). The company actually builds 30,000 units at a total cost of £12 million (£400 per unit).

1.3. Ofgem's consultants carry out analysis of the actual workload and associated expenditure including assessing the variances against allowances, the original papers setting out the justification for the work, the management of the work and annual progress reviews etc.

1.4. The consultants find that the project management of the work and procurement processes were deficient in a number of areas and the work should have been completed at a total cost of £9 million (£300 per unit). Therefore £3 million of costs are deemed to be wasteful. As this is an overspend, the costs are excluded from the RAV – there is no recovery of capital charges (Pot 1).

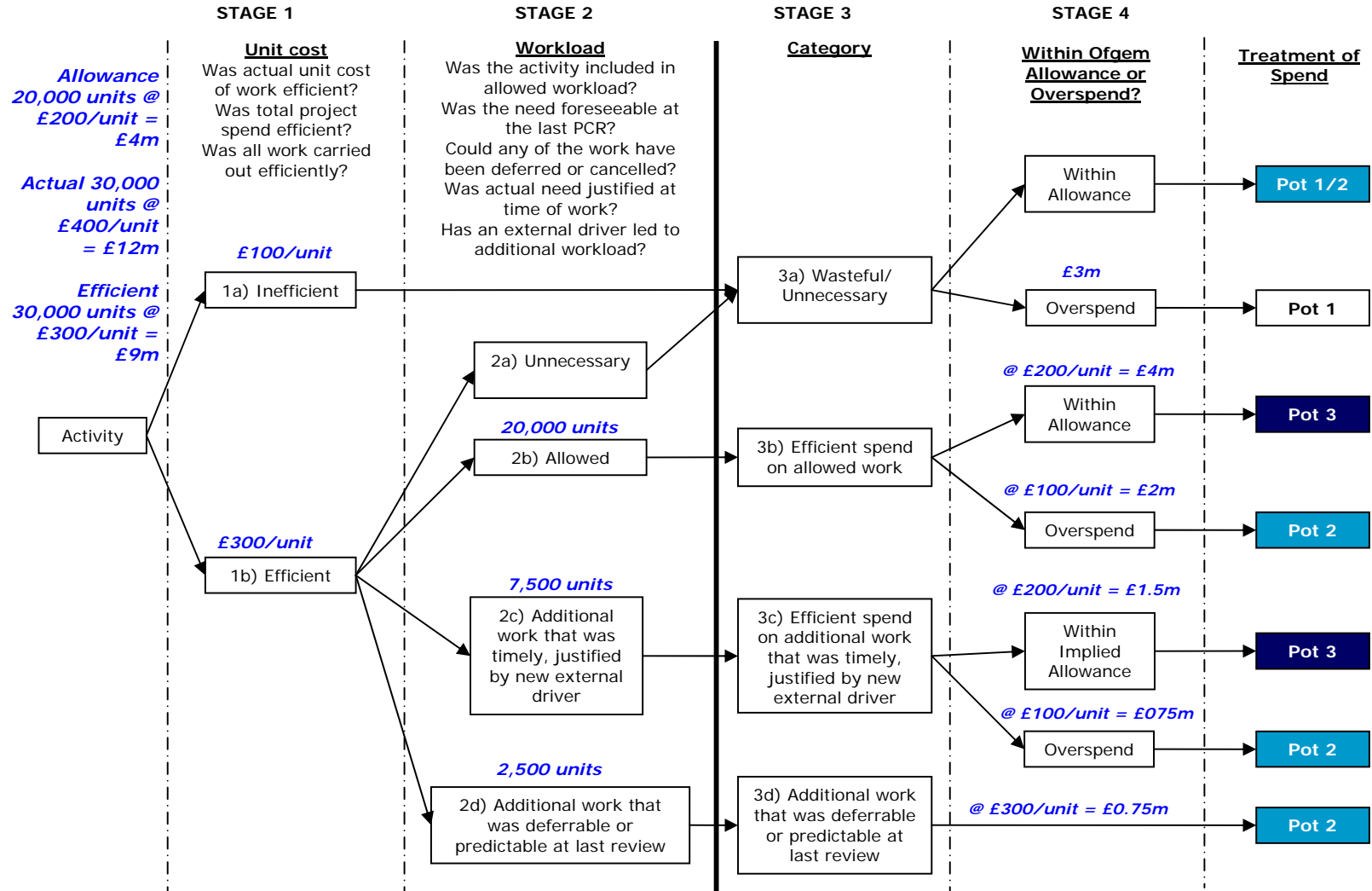
1.5. Based on the analysis none of the work is found to be unnecessary. The total efficient cost of the allowed work is £6 million (20,000 units at £300 per unit) compared to the allowance of £4 million. The capital charges for the allowed spend are recovered from the year incurred (Pot 3). The company is exposed to capital charges on the excess spend for 5 years (Pot 2).

1.6. 7,500 units of the additional workload are found to be justified by new government legislation that was introduced and was not anticipated at the last review. The implied allowance for this work based on the equivalent allowed work would be £1.5 million (based on a unit cost of £200 per unit). The capital charges for spend up to this allowance would be allowed from the year the investment incurred. This is included in pot 3. The company would be exposed to the capital charges on the additional £0.75 million for 5 years. (i.e. the additional £100 per unit for 7,500.) This is included in pot 2.

1.7. Finally, the remaining 2,500 units could have been efficiently deferred. The company is exposed to the capital charges on the £0.75 million for 5 years (Pot 2).

1.8. In summary, of the £12 million spent, £3 million is allocated to Pot 1; £3.5 million is allocated to Pot 2; and £5.5 million is allocated to Pot 3.

Figure 6.1- Example of cost efficiency assessment and RAV roll forward process



## Appendix 7– Performance against allowances

1.1. The numbers are based on the cost information provided by the GDNs in their BPO responses and in answers to subsequent questions. They are prior to any efficiency analysis being carried out by Ofgem. We have not made any adjustments to the cost information provided by GDNs in their BPO responses.

1.2. The first part of this appendix sets out a series of tables that provide summary information about the 8 GDNs, in comparison to each other and in aggregate, against price control allowances. The remainder of this appendix sets out a series of tables detailing the actual and forecast costs for each GDN against price control allowances.

### Summary of GDN performance against allowances

#### Performance against allowances for the eight GDNs in total

**Table 7.1 Total GDN reported opex v allowances, £m (2005-06 prices)**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	53.6	40.6	55.2	86.5	105.0	101.9
Pensions	35.1	50.5	50.3	54.9	62.8	93.2
Other opex	697.2	587.5	576.3	587.8	620.7	621.4
<b>Controllable opex</b>	<b>786.0</b>	<b>678.6</b>	<b>681.9</b>	<b>729.2</b>	<b>788.5</b>	<b>816.5</b>
Rates	187.4	184.2	183.5	215.0	246.6	258.6
Licence fees	11.1	10.7	10.6	10.1	10.5	10.4
<b>Total opex (excluding repex)</b>	<b>984.5</b>	<b>873.5</b>	<b>876.0</b>	<b>954.3</b>	<b>1045.6</b>	<b>1085.5</b>
<b>Allowances</b>						
Shrinkage	50.7	50.1	48.7	46.6	45.1	
Pensions	24.3	24.0	23.4	22.8	22.2	
Other opex	663.7	638.6	614.6	595.3	573.9	
<b>Controllable opex</b>	<b>738.7</b>	<b>712.7</b>	<b>686.6</b>	<b>664.7</b>	<b>641.2</b>	
Rates	187.4	184.2	183.5	215.0	246.6	
Licence fees	11.1	10.7	10.6	10.1	10.5	
<b>Total opex (excluding repex)</b>	<b>937.2</b>	<b>907.6</b>	<b>880.7</b>	<b>889.8</b>	<b>898.3</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.2 Total GDN reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	99.2	60.1	32.5	62.0	36.2	116.1
Reinforcement & Governors	69.5	50.2	25.7	24.5	47.3	57.9
Connections	98.6	66.5	69.4	84.4	71.7	62.0
Other	72.4	52.1	50.6	101.0	101.2	134.9
<b>Total net capex</b>	<b>339.6</b>	<b>228.9</b>	<b>178.2</b>	<b>271.9</b>	<b>256.3</b>	<b>370.8</b>
<b>Allowances</b>						
LTS & Storage	126.4	42.8	32.6	17.7	32.7	
Reinforcement & Governors	34.7	32.4	29.7	27.8	26.4	
Connections	22.8	18.3	14.3	10.1	7.6	
Other	80.5	70.2	43.5	51.4	53.6	
<b>Total net capex</b>	<b>264.4</b>	<b>163.7</b>	<b>120.1</b>	<b>107.0</b>	<b>120.3</b>	

\* 2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.3 Total GDN reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	335.2	261.1	312.6	325.7	358.5	358.3
Services	104.9	147.1	171.3	215.1	232.4	260.5
Other	-0.8	2.0	-0.5	0.1	2.2	2.3
<b>Total net repex</b>	<b>439.3</b>	<b>410.2</b>	<b>483.3</b>	<b>540.8</b>	<b>593.1</b>	<b>621.2</b>
<b>Allowances</b>						
Mains	388.3	298.2	326.3	344.5	355.7	
Services	76.0	89.2	93.1	97.3	98.0	
Other	9.5	19.9	16.1	19.4	11.4	
<b>Total net repex</b>	<b>473.8</b>	<b>407.3</b>	<b>435.5</b>	<b>461.2</b>	<b>465.0</b>	

\* 2005-06 to 2007-08 figures for GDN reported repex are forecasts.

## Comparative GDN performance

1.3. The following tables provide a summary of the difference between each GDN's revenue allowance for each of controllable opex, capex and repex and their actual expenditure (as reported by the GDN). Percentages show the over or under spend as a proportion of the GDN's revenue allowance.

**Table 7.4 GDN controllable operating costs - variances against allowances by GDN (2005-06 prices)**

	2002-03		2003-04		2004-05		2005-06*		2006-07*		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
<b>NGG</b>	25.9	7	-13.7	-4	9.1	3	38.1	12	92.6	30	152.0	9
East England	4.2	3	-10.2	-9	1.7	1	6.5	6	23.6	22	25.8	4
London	7.3	10	0.0	0	5.5	8	9.0	13	20.1	31	41.9	12
North West	9.2	10	-3.6	-4	-3.1	-4	13.2	17	27.4	36	43.1	10
West Midlands	5.2	8	0.1	0	5.0	8	9.4	16	21.5	39	41.2	14
<b>North England</b>	-0.4	0	-11.8	-13	-4.8	-5	-1.4	-2	7.9	9	-10.4	-2
<b>Scotia</b>	17.4	9	-1.4	-1	-5.8	-3	14.9	8	37.6	22	62.7	7
Scotland	5.8	8	0.8	1	-2.5	-4	2.2	3	9.3	14	15.6	4
South England	11.5	9	-2.2	-2	-3.3	-3	12.7	11	28.3	26	47.1	8
<b>Wales and West</b>	4.4	5	-7.3	-8	-3.3	-4	12.8	15	9.2	11	15.9	4
<b>Total</b>	<b>47.3</b>	<b>6</b>	<b>-34.1</b>	<b>-5</b>	<b>-4.7</b>	<b>-1</b>	<b>64.5</b>	<b>10</b>	<b>147.3</b>	<b>23</b>	<b>220.2</b>	<b>6</b>

\* 2005-06 to 2006-07 figures for controllable opex are forecasts.

**Table 7.5 GDN capital expenditure - variances against allowances by GDN (2005-06 prices)**

	2002-03		2003-04		2004-05		2005-06*		2006-07*		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
<b>NGG</b>	36.4	33	32.8	60	25.0	63	58.5	131	59.3	130	212.0	72
East of England	10.8	28	12.8	55	9.8	53	26.3	126	23.3	132	83.0	69
North London	3.0	18	5.6	63	6.9	99	9.7	147	18.5	269	43.7	95
North West	33.9	193	5.7	55	5.3	66	14.1	140	15.3	205	74.3	140
West Midlands	-11.2	-30	8.6	71	3.1	50	8.4	118	2.2	17	11.1	15
<b>Northern Gas Networks</b>	-3.9	-9	8.6	37	0.8	4	13.6	83	8.0	36	27.2	22
<b>Scotia</b>	23.5	37	7.9	14	22.7	50	51.7	167	47.6	140	153.4	67
Scotland	1.3	4	-6.6	-23	22.9	172	41.2	325	23.7	227	82.5	83
Southern	22.2	76	14.6	51	-0.2	-1	10.4	57	23.9	101	70.9	54
<b>Wales and West Utilities</b>	19.2	41	15.9	56	9.6	63	41.0	274	21.1	113	106.8	86
<b>Total</b>	<b>75.2</b>	<b>28</b>	<b>65.2</b>	<b>40</b>	<b>58.1</b>	<b>48</b>	<b>164.8</b>	<b>154</b>	<b>136.0</b>	<b>113</b>	<b>499.3</b>	<b>64</b>

\* 2005-06 to 2006-07 figures for capex are forecasts.

**Table 7.6 GDN replacement expenditure - variances against allowances by GDN (2005-06 prices)**

	2002-03		2003-04		2004-05		2005-06*		2006-07*		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
<b>NGG</b>	-30.2	-12	-21.0	-10	20.6	9	40.8	18	61.7	26	71.9	6
East of England	-16.1	-22	6.1	10	9.1	13	36.8	56	44.0	67	79.8	24
North London	-3.7	-6	-5.0	-9	7.0	15	-1.7	-3	-6.1	-12	-9.5	-4
North West	-5.9	-10	-21.0	-31	-3.0	-5	0.3	0	7.3	9	-22.2	-6
West Midlands	-4.6	-8	-1.1	-3	7.5	18	5.4	12	16.6	39	23.8	10
<b>Northern Gas Networks</b>	4.6	8	9.6	22	3.4	7	6.2	11	11.1	21	34.9	13
<b>Scotia</b>	-15.6	-13	7.0	6	16.4	14	19.5	15	39.4	29	66.7	11
Scotland	-2.2	-7	4.5	16	7.7	22	10.9	31	23.8	71	44.8	28
Southern	-13.4	-15	2.5	3	8.7	11	8.6	9	15.6	15	22.0	5
<b>Wales and West Utilities</b>	6.7	16	7.3	21	7.4	17	13.1	31	15.9	42	50.4	25
<b>Total</b>	<b>-34.5</b>	<b>-7</b>	<b>2.8</b>	<b>1</b>	<b>47.8</b>	<b>11</b>	<b>79.6</b>	<b>17</b>	<b>128.1</b>	<b>28</b>	<b>223.9</b>	<b>10</b>

\* 2005-06 to 2006-07 figures for repex are forecasts.

## East England (owned by NGG)

**Table 7.7 East England reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	10.4	8.1	9.5	14.1	16.1	16.8
Pensions	3.1	6.6	6.2	6.9	9.4	19.4
Other opex	114.5	94.6	101.0	97.0	105.6	101.7
<b>Controllable opex</b>	<b>128.0</b>	<b>109.3</b>	<b>116.8</b>	<b>117.9</b>	<b>131.1</b>	<b>137.8</b>
Rates	37.4	36.9	37.7	48.8	57.1	60.4
Licence fees	2.0	1.9	1.9	1.8	1.9	1.9
<b>Total opex (excluding repex)</b>	<b>167.4</b>	<b>148.1</b>	<b>156.5</b>	<b>168.6</b>	<b>190.1</b>	<b>200.1</b>
<b>Allowances</b>						
Shrinkage	8.8	8.7	8.5	8.1	7.9	
Pensions	4.2	4.1	4.0	3.9	3.8	
Other opex	110.9	106.6	102.6	99.4	95.8	
<b>Controllable opex</b>	<b>123.9</b>	<b>119.5</b>	<b>115.1</b>	<b>111.4</b>	<b>107.5</b>	
Rates	37.4	36.9	37.7	48.8	57.1	
Licence fees	2.0	1.9	1.9	1.8	1.9	
<b>Total opex (excluding repex)</b>	<b>163.2</b>	<b>158.3</b>	<b>154.8</b>	<b>162.1</b>	<b>166.5</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.8 East England reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	2.3	2.9	3.5	12.8	4.6	9.6
Reinforcement & Governors	16.6	11.6	5.4	1.9	6.3	4.7
Connections	17.0	12.2	10.2	15.0	11.8	8.0
Other	13.9	9.6	9.1	17.6	18.2	19.7
<b>Total net capex</b>	<b>49.7</b>	<b>36.3</b>	<b>28.2</b>	<b>47.3</b>	<b>40.9</b>	<b>42.0</b>
<b>Allowances</b>						
LTS & Storage	13.8	2.0	3.5	5.7	2.5	
Reinforcement & Governors	6.8	6.3	5.3	5.0	4.8	
Connections	4.3	3.3	2.3	1.6	1.3	
Other	14.1	11.9	7.2	8.6	9.0	
<b>Total net capex</b>	<b>39.0</b>	<b>23.4</b>	<b>18.4</b>	<b>20.9</b>	<b>17.7</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.9 East England reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	44.9	43.4	54.0	61.1	65.8	64.9
Services	14.2	21.4	26.0	41.7	44.1	47.2
Other	-1.3	0.6	0.3	-0.3	-0.7	-2.3
<b>Total net repex</b>	<b>57.8</b>	<b>65.3</b>	<b>80.3</b>	<b>102.5</b>	<b>109.2</b>	<b>109.8</b>
<b>Allowances</b>						
Mains	61.7	44.0	53.8	48.6	49.4	
Services	11.4	13.4	14.7	14.2	14.1	
Other	1.0	1.9	2.7	2.8	1.7	
<b>Total net repex</b>	<b>74.0</b>	<b>59.2</b>	<b>71.2</b>	<b>65.7</b>	<b>65.2</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

### London (owned by NGG)

**Table 7.10 London reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	3.0	2.2	4.6	8.1	9.4	9.7
Pensions	2.3	5.1	5.2	5.0	6.6	13.6
Other opex	76.2	64.4	64.8	62.9	68.6	69.2
<b>Controllable opex</b>	<b>81.6</b>	<b>71.7</b>	<b>74.6</b>	<b>75.9</b>	<b>84.6</b>	<b>92.5</b>
Rates	18.4	18.2	17.9	23.4	27.6	29.1
Licence fees	1.2	1.2	1.0	1.1	1.1	1.1
<b>Total opex (excluding repex)</b>	<b>101.2</b>	<b>91.1</b>	<b>93.6</b>	<b>100.4</b>	<b>113.3</b>	<b>122.7</b>
<b>Allowances</b>						
Shrinkage	2.1	2.1	2.0	1.9	1.9	
Pensions	2.5	2.5	2.4	2.3	2.3	
Other opex	69.7	67.2	64.7	62.6	60.4	
<b>Controllable opex</b>	<b>74.3</b>	<b>71.7</b>	<b>69.1</b>	<b>66.9</b>	<b>64.5</b>	
Rates	18.4	18.2	17.9	23.4	27.6	
Licence fees	1.2	1.2	1.0	1.1	1.1	
<b>Total opex (excluding repex)</b>	<b>93.9</b>	<b>91.1</b>	<b>88.1</b>	<b>91.4</b>	<b>93.2</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.11 London reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	2.1	1.8	2.1	3.9	7.0	27.6
Reinforcement & Governors	4.9	4.3	1.7	1.4	4.1	5.8
Connections	7.2	4.6	5.2	3.7	3.8	2.1
Other	5.6	3.9	4.7	7.3	10.4	10.9
<b>Total net capex</b>	<b>19.8</b>	<b>14.6</b>	<b>13.8</b>	<b>16.3</b>	<b>25.3</b>	<b>46.4</b>
<b>Allowances</b>						
LTS & Storage	8.1	1.5	1.7	1.1	1.4	
Reinforcement & Governors	2.1	2.2	2.1	1.9	1.8	
Connections	1.3	1.0	0.7	0.5	0.3	
Other	5.2	4.3	2.4	3.1	3.4	
<b>Total net capex</b>	<b>16.7</b>	<b>9.0</b>	<b>6.9</b>	<b>6.6</b>	<b>6.9</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.12 London reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	42.1	32.0	32.5	27.2	26.8	25.8
Services	15.0	18.0	20.0	22.1	17.9	22.3
Other	0.4	-0.1	0.3	-0.2	-0.3	-1.5
<b>Total net repex</b>	<b>57.6</b>	<b>49.8</b>	<b>52.8</b>	<b>49.1</b>	<b>44.4</b>	<b>46.7</b>
<b>Allowances</b>						
Mains	47.4	41.7	35.2	39.4	40.2	
Services	12.9	11.9	9.2	9.7	9.3	
Other	0.9	1.2	1.3	1.7	1.0	
<b>Total net repex</b>	<b>61.2</b>	<b>54.8</b>	<b>45.7</b>	<b>50.8</b>	<b>50.5</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

## North West (owned by NGG)

**Table 7.13 North West reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	7.9	5.5	6.7	10.3	11.9	12.2
Pensions	2.6	5.2	5.0	5.0	6.8	14.3
Other opex	87.1	70.9	67.3	77.4	85.5	84.0
<b>Controllable opex</b>	<b>97.6</b>	<b>81.7</b>	<b>79.0</b>	<b>92.7</b>	<b>104.1</b>	<b>110.6</b>
Rates	22.5	22.3	21.9	24.5	28.7	30.4
Licence fees	1.4	1.3	1.3	1.3	1.3	1.3
<b>Total opex (excluding repex)</b>	<b>121.6</b>	<b>105.3</b>	<b>102.2</b>	<b>118.5</b>	<b>134.2</b>	<b>142.2</b>
<b>Allowances</b>						
Shrinkage	8.1	8.0	7.8	7.5	7.2	
Pensions	3.0	2.9	2.8	2.8	2.7	
Other opex	77.3	74.4	71.5	69.3	66.8	
<b>Controllable opex</b>	<b>88.4</b>	<b>85.3</b>	<b>82.2</b>	<b>79.5</b>	<b>76.7</b>	
Rates	22.5	22.3	21.9	24.5	28.7	
Licence fees	1.4	1.3	1.3	1.3	1.3	
<b>Total opex (excluding repex)</b>	<b>112.4</b>	<b>108.9</b>	<b>105.4</b>	<b>105.3</b>	<b>106.8</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.14 North West reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	28.8	3.4	0.9	2.6	2.0	5.8
Reinforcement & Governors	3.7	2.5	0.6	1.3	2.1	3.9
Connections	9.0	5.3	6.1	7.9	5.9	3.9
Other	9.9	4.7	5.5	12.4	12.8	14.1
<b>Total net capex</b>	<b>51.4</b>	<b>15.9</b>	<b>13.2</b>	<b>24.2</b>	<b>22.8</b>	<b>27.7</b>
<b>Allowances</b>						
LTS & Storage	6.7	1.1	1.2	2.9	0.3	
Reinforcement & Governors	2.6	2.3	2.1	2.0	1.9	
Connections	1.2	1.0	0.9	0.6	0.4	
Other	7.0	5.9	3.8	4.6	4.9	
<b>Total net capex</b>	<b>17.5</b>	<b>10.2</b>	<b>7.9</b>	<b>10.0</b>	<b>7.5</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.15 North West reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	41.9	31.4	42.3	44.6	54.9	56.0
Services	13.0	14.5	19.0	29.0	31.9	33.4
Other	-0.1	0.0	-0.9	-0.5	-0.4	-1.3
<b>Total net repex</b>	<b>54.8</b>	<b>45.9</b>	<b>60.3</b>	<b>73.1</b>	<b>86.5</b>	<b>88.1</b>
<b>Allowances</b>						
Mains	49.5	47.5	49.2	56.7	63.7	
Services	8.6	11.3	11.0	12.1	12.9	
Other	2.6	8.1	3.1	3.9	2.7	
<b>Total net repex</b>	<b>60.7</b>	<b>66.9</b>	<b>63.3</b>	<b>72.7</b>	<b>79.2</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

### West Midlands (owned by NGG)

**Table 7.16 West Midlands reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	4.6	3.3	5.2	8.7	9.9	10.3
Pensions	1.8	3.8	3.7	3.6	4.8	10.3
Other opex	62.4	54.4	55.2	54.3	62.0	59.6
<b>Controllable opex</b>	<b>68.8</b>	<b>61.4</b>	<b>64.1</b>	<b>66.6</b>	<b>76.7</b>	<b>80.2</b>
Rates	17.3	17.1	17.4	19.2	22.5	23.8
Licence fees	1.0	1.0	0.9	0.9	0.9	0.9
<b>Total opex (excluding repex)</b>	<b>87.1</b>	<b>79.5</b>	<b>82.5</b>	<b>86.7</b>	<b>100.2</b>	<b>104.9</b>
<b>Allowances</b>						
Shrinkage	4.7	4.6	4.5	4.3	4.1	
Pensions	2.0	2.0	1.9	1.9	1.8	
Other opex	56.9	54.8	52.7	51.0	49.2	
<b>Controllable opex</b>	<b>63.6</b>	<b>61.3</b>	<b>59.1</b>	<b>57.2</b>	<b>55.2</b>	
Rates	17.3	17.1	17.4	19.2	22.5	
Licence fees	1.0	1.0	0.9	0.9	0.9	
<b>Total opex (excluding repex)</b>	<b>81.9</b>	<b>79.4</b>	<b>77.5</b>	<b>77.3</b>	<b>78.7</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.17 West Midlands reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	12.3	10.7	0.4	1.9	1.2	3.1
Reinforcement & Governors	2.8	1.1	1.2	0.9	1.5	2.7
Connections	5.9	5.5	4.1	5.5	4.0	2.6
Other	5.1	3.6	3.5	7.2	9.0	10.1
<b>Total net capex</b>	<b>26.1</b>	<b>20.8</b>	<b>9.2</b>	<b>15.5</b>	<b>15.7</b>	<b>18.5</b>
<b>Allowances</b>						
LTS & Storage	26.8	3.4	0.0	0.7	7.0	
Reinforcement & Governors	2.8	2.3	2.3	2.2	2.1	
Connections	1.3	0.8	0.5	0.3	0.2	
Other	6.5	5.6	3.3	4.0	4.2	
<b>Total net capex</b>	<b>37.4</b>	<b>12.2</b>	<b>6.1</b>	<b>7.1</b>	<b>13.5</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.18 West Midlands reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	45.6	22.1	34.1	28.5	38.8	35.2
Services	7.2	16.4	16.9	20.9	21.0	23.3
Other	0.5	-0.5	-1.0	-0.1	-0.3	-1.2
<b>Total net repex</b>	<b>53.4</b>	<b>38.0</b>	<b>50.0</b>	<b>49.3</b>	<b>59.6</b>	<b>57.4</b>
<b>Allowances</b>						
Mains	51.1	29.8	33.2	34.1	34.0	
Services	6.6	8.6	8.4	8.5	8.3	
Other	0.4	0.7	1.0	1.3	0.6	
<b>Total net repex</b>	<b>58.0</b>	<b>39.1</b>	<b>42.6</b>	<b>44.0</b>	<b>43.0</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

## North England (owned by NGN)

**Table 7.19 North England reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	7.4	5.9	7.0	11.3	15.2	15.2
Pensions	2.7	5.8	5.1	5.2	8.8	8.9
Other opex	85.5	69.1	72.4	68.5	67.2	69.3
<b>Controllable opex</b>	<b>95.6</b>	<b>80.9</b>	<b>84.5</b>	<b>85.0</b>	<b>91.2</b>	<b>93.4</b>
Rates	21.6	20.3	20.7	26.3	27.9	29.6
Licence fees	1.3	1.2	1.2	1.0	1.3	1.3
<b>Total opex (excluding repex)</b>	<b>118.6</b>	<b>102.3</b>	<b>106.4</b>	<b>112.3</b>	<b>120.4</b>	<b>124.3</b>
<b>Allowances</b>						
Shrinkage	7.4	7.3	7.1	6.8	6.5	
Pensions	3.2	3.1	3.1	3.0	2.9	
Other opex	85.5	82.2	79.1	76.6	73.9	
<b>Controllable opex</b>	<b>96.0</b>	<b>92.6</b>	<b>89.2</b>	<b>86.4</b>	<b>83.3</b>	
Rates	21.6	20.3	20.7	26.3	27.9	
Licence fees	1.3	1.2	1.2	1.0	1.3	
<b>Total opex (excluding repex)</b>	<b>119.0</b>	<b>114.1</b>	<b>111.2</b>	<b>113.7</b>	<b>112.5</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.20 North England reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	15.6	16.0	2.5	2.4	0.1	2.2
Reinforcement & Governors	5.8	3.6	4.4	3.7	4.4	6.2
Connections	10.7	6.2	8.9	10.5	9.9	9.6
Other	8.1	6.3	5.4	13.4	15.8	20.1
<b>Total net capex</b>	<b>40.1</b>	<b>32.0</b>	<b>21.2</b>	<b>30.0</b>	<b>30.2</b>	<b>38.2</b>
<b>Allowances</b>						
LTS & Storage	21.5	3.8	6.1	1.7	7.3	
Reinforcement & Governors	5.0	4.4	4.4	4.1	4.0	
Connections	4.3	3.3	2.6	1.9	1.7	
Other	13.2	11.9	7.3	8.7	9.2	
<b>Total net capex</b>	<b>44.0</b>	<b>23.4</b>	<b>20.4</b>	<b>16.4</b>	<b>22.1</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.21 North England reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	51.9	39.9	37.3	43.0	40.7	41.6
Services	12.4	14.2	17.7	20.0	22.3	22.7
Other	0.2	-0.1	0.2	-0.9	2.3	5.1
<b>Total net repex</b>	<b>64.5</b>	<b>54.0</b>	<b>55.3</b>	<b>62.1</b>	<b>65.2</b>	<b>69.3</b>
<b>Allowances</b>						
Mains	51.3	34.6	39.7	42.7	42.4	
Services	8.0	8.5	10.8	11.3	10.9	
Other	0.7	1.4	1.4	1.9	0.9	
<b>Total net repex</b>	<b>59.9</b>	<b>44.4</b>	<b>51.9</b>	<b>55.9</b>	<b>54.1</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

### Scotland (owned by SGN)

**Table 7.22 Scotland reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	5.7	4.7	4.8	6.3	9.5	7.8
Pensions	5.8	7.2	8.9	8.1	7.4	7.4
Other opex	70.1	61.9	54.1	55.9	58.1	59.1
<b>Controllable opex</b>	<b>81.5</b>	<b>73.8</b>	<b>67.8</b>	<b>70.3</b>	<b>75.0</b>	<b>74.3</b>
Rates	14.4	14.2	13.8	13.4	14.8	14.8
Licence fees	0.9	0.8	0.8	0.8	0.8	0.8
<b>Total opex (excluding repex)</b>	<b>96.7</b>	<b>88.8</b>	<b>82.4</b>	<b>84.5</b>	<b>90.6</b>	<b>89.9</b>
<b>Allowances</b>						
Shrinkage	5.5	5.5	5.3	5.1	4.9	
Pensions	2.5	2.4	2.4	2.3	2.3	
Other opex	67.6	65.1	62.6	60.7	58.5	
<b>Controllable opex</b>	<b>75.7</b>	<b>73.0</b>	<b>70.3</b>	<b>68.1</b>	<b>65.7</b>	
Rates	14.4	14.2	13.8	13.4	14.8	
Licence fees	0.9	0.8	0.8	0.8	0.8	
<b>Total opex (excluding repex)</b>	<b>90.9</b>	<b>88.0</b>	<b>84.9</b>	<b>82.3</b>	<b>81.3</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.23 Scotland reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	5.8	0.4	13.8	32.1	7.5	24.0
Reinforcement & Governors	8.4	5.2	4.0	3.4	7.6	9.7
Connections	16.3	9.7	12.5	16.9	14.8	14.5
Other	5.1	6.2	5.9	1.5	4.3	16.8
<b>Total net capex</b>	<b>35.5</b>	<b>21.6</b>	<b>36.2</b>	<b>53.9</b>	<b>34.2</b>	<b>65.0</b>
<b>Allowances</b>						
LTS & Storage	18.4	13.9	1.9	1.6	0.8	
Reinforcement & Governors	4.8	4.1	3.8	3.5	3.3	
Connections	2.7	2.4	2.2	1.6	1.0	
Other	8.4	7.8	5.5	6.1	5.4	
<b>Total net capex</b>	<b>34.3</b>	<b>28.3</b>	<b>13.3</b>	<b>12.7</b>	<b>10.5</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.24 Scotland reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	20.6	19.8	26.2	27.5	33.7	33.9
Services	8.6	12.1	15.8	18.0	22.6	24.5
Other	-0.4	0.0	1.1	0.7	0.8	1.0
<b>Total net repex</b>	<b>28.8</b>	<b>31.9</b>	<b>43.0</b>	<b>46.3</b>	<b>57.1</b>	<b>59.5</b>
<b>Allowances</b>						
Mains	25.1	19.7	26.1	26.0	25.2	
Services	4.5	5.0	7.7	7.5	7.0	
Other	1.4	2.8	1.5	1.8	1.1	
<b>Total net repex</b>	<b>31.0</b>	<b>27.4</b>	<b>35.3</b>	<b>35.3</b>	<b>33.4</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

## South England (owned by SGN)

**Table 7.25 South England reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	8.8	6.5	10.4	16.6	19.7	16.6
Pensions	9.1	10.7	9.2	12.4	10.4	10.5
Other opex	117.1	99.8	91.9	94.8	105.4	107.7
<b>Controllable opex</b>	<b>135.0</b>	<b>116.9</b>	<b>111.5</b>	<b>123.8</b>	<b>135.5</b>	<b>134.8</b>
Rates	37.5	37.0	36.4	39.8	46.7	49.4
Licence fees	2.2	2.2	2.2	2.2	2.1	2.0
<b>Total opex (excluding repex)</b>	<b>174.7</b>	<b>156.2</b>	<b>150.1</b>	<b>165.8</b>	<b>184.3</b>	<b>186.2</b>
<b>Allowances</b>						
Shrinkage	9.0	8.9	8.7	8.3	8.0	
Pensions	3.9	3.9	3.8	3.7	3.6	
Other opex	110.5	106.3	102.3	99.1	95.5	
<b>Controllable opex</b>	<b>123.5</b>	<b>119.1</b>	<b>114.8</b>	<b>111.1</b>	<b>107.2</b>	
Rates	37.5	37.0	36.4	39.8	46.7	
Licence fees	2.2	2.2	2.2	2.2	2.1	
<b>Total opex (excluding repex)</b>	<b>163.2</b>	<b>158.4</b>	<b>153.4</b>	<b>153.1</b>	<b>156.0</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.26 South England reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	10.2	8.2	7.5	2.7	8.0	34.2
Reinforcement & Governors	11.9	15.1	4.8	6.1	16.5	18.6
Connections	15.6	9.7	9.9	13.1	14.1	14.1
Other	13.8	10.1	9.3	6.8	8.8	25.1
<b>Total net capex</b>	<b>51.5</b>	<b>43.2</b>	<b>31.5</b>	<b>28.7</b>	<b>47.5</b>	<b>92.0</b>
<b>Allowances</b>						
LTS & Storage	6.4	7.5	16.5	2.9	8.4	
Reinforcement & Governors	5.6	6.3	5.5	5.1	4.8	
Connections	3.9	3.2	2.6	1.9	1.4	
Other	13.4	11.6	7.1	8.3	9.0	
<b>Total net capex</b>	<b>29.3</b>	<b>28.6</b>	<b>31.7</b>	<b>18.3</b>	<b>23.6</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.27 South England reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	50.5	48.1	54.6	62.8	67.2	68.5
Services	23.7	33.7	37.1	40.5	49.7	63.5
Other	-0.5	1.0	-0.6	0.4	0.1	1.8
<b>Total net repex</b>	<b>73.8</b>	<b>82.8</b>	<b>91.1</b>	<b>103.7</b>	<b>116.9</b>	<b>133.8</b>
<b>Allowances</b>						
Mains	67.4	54.3	57.1	66.2	71.9	
Services	18.3	23.9	22.8	25.5	27.5	
Other	1.5	2.1	2.5	3.3	1.9	
<b>Total net repex</b>	<b>87.2</b>	<b>80.3</b>	<b>82.4</b>	<b>95.1</b>	<b>101.3</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

### Wales & West (owned by WWU)

**Table 7.28 Wales & West reported opex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported opex</b>						
Shrinkage	5.8	4.4	7.0	11.1	13.3	13.3
Pensions	7.6	6.0	6.9	8.7	8.7	8.8
Other opex	84.4	72.4	69.7	77.1	68.3	70.8
<b>Controllable opex</b>	<b>97.8</b>	<b>82.9</b>	<b>83.5</b>	<b>96.9</b>	<b>90.3</b>	<b>92.9</b>
Rates	18.3	18.1	17.7	19.6	21.2	21.2
Licence fees	1.2	1.2	1.1	1.1	1.1	1.1
<b>Total opex (excluding repex)</b>	<b>117.3</b>	<b>102.1</b>	<b>102.3</b>	<b>117.6</b>	<b>112.6</b>	<b>115.2</b>
<b>Allowances</b>						
Shrinkage	5.0	5.0	4.8	4.6	4.5	
Pensions	3.1	3.0	3.0	2.9	2.8	
Other opex	85.3	82.1	79.0	76.5	73.8	
<b>Controllable opex</b>	<b>93.4</b>	<b>90.1</b>	<b>86.8</b>	<b>84.1</b>	<b>81.1</b>	
Rates	18.3	18.1	17.7	19.6	21.2	
Licence fees	1.2	1.2	1.1	1.1	1.1	
<b>Total opex (excluding repex)</b>	<b>112.9</b>	<b>109.4</b>	<b>105.6</b>	<b>104.8</b>	<b>103.4</b>	

\*2005-06 to 2007-08 figures for GDN reported opex are forecasts.

**Table 7.29 Wales & West reported capex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net capex</b>						
LTS & Storage	22.2	16.7	1.8	3.5	5.7	9.5
Reinforcement & Governors	15.3	6.7	3.4	5.8	4.8	6.3
Connections	17.1	13.4	12.4	11.9	7.3	7.3
Other	10.9	7.6	7.2	34.8	22.0	18.1
<b>Total net capex</b>	<b>65.4</b>	<b>44.4</b>	<b>24.9</b>	<b>56.0</b>	<b>39.7</b>	<b>41.1</b>
<b>Allowances</b>						
LTS & Storage	24.6	9.6	1.7	1.2	4.9	
Reinforcement & Governors	5.1	4.5	4.4	4.0	3.8	
Connections	3.9	3.3	2.4	1.7	1.4	
Other	12.7	11.2	6.8	8.0	8.6	
<b>Total net capex</b>	<b>46.3</b>	<b>28.5</b>	<b>15.3</b>	<b>15.0</b>	<b>18.7</b>	

\*2005-06 to 2007-08 figures for GDN reported capex are forecasts.

**Table 7.30 Wales & West reported repex v allowances, £m, 2005-06 prices**

	02-03	03-04	04-05	05-06*	06-07*	07-08*
<b>GDN reported net repex</b>						
Mains	37.5	24.4	31.6	30.9	30.5	32.3
Services	10.7	16.7	18.8	22.9	22.9	23.6
Other	0.3	1.2	0.1	1.0	0.6	0.7
<b>Total net repex</b>	<b>48.5</b>	<b>42.3</b>	<b>50.5</b>	<b>54.8</b>	<b>54.1</b>	<b>56.6</b>
<b>Allowances</b>						
Mains	34.9	26.7	31.9	30.7	28.8	
Services	5.8	6.6	8.5	8.3	8.0	
Other	1.1	1.7	2.6	2.7	1.5	
<b>Total net repex</b>	<b>41.8</b>	<b>35.1</b>	<b>43.0</b>	<b>41.7</b>	<b>38.2</b>	

\*2005-06 to 2007-08 figures for GDN reported repex are forecasts.

## Appendix 8 – Current quality of service and outputs arrangements

Instrument	Description	Outputs covered by the instrument
Guaranteed Standards of Performance (GSOPs)	<p>GSOPs provide protection to individual customers. If a GT fails to provide the specified level of service, it must make a payment to the customer affected (subject to certain exemptions). GSOPs are set out in Regulations which are made by the Authority with the consent of the Secretary of State for Trade and Industry. GSOPs apply to both GDNs and IGTs.</p> <p>Note: There is also a voluntary scheme in place whereby GDNs have agreed to extend the connections GSOPs to customers not covered under the Regulations (i.e. suppliers, shippers, IGTs and ICPs). Some types of connections are excluded from the GSOPs and GDNs have agreed to report on these separately.</p>	<ul style="list-style-type: none"> <li>▪ Supply restoration following unplanned interruptions for domestic consumers</li> <li>▪ Reinstatement of consumers' premises following works</li> <li>▪ Provision of alternative heating and cooking facilities for priority consumers</li> <li>▪ Timely provision of connection quotes</li> <li>▪ Accuracy of connection quotes</li> <li>▪ Prompt response to land enquiries</li> <li>▪ Offering commencement and substantial completion dates for connection works</li> <li>▪ Completion of connection works by the agreed date</li> <li>▪ Notifying consumers and making payments under these standards</li> </ul>
Third party damage & water ingress arrangements	<p>Arrangements agreed between Ofgem and GDNs, so that compensation would be paid to consumers for interruptions to gas supplies caused by third party damage or water ingress. These arrangements only apply to GDNs and are due to expire on 31 March 2007.</p>	<ul style="list-style-type: none"> <li>▪ Supply restoration following unplanned interruptions resulting from third party damage or water ingress interruptions for domestic consumers (consistent with supply restoration GSOP)</li> <li>▪ Non domestic consumers' compensation payments are calculated in accordance with the UNC</li> <li>▪ There are separate incident and annual caps for each GDN which apply to these payments</li> </ul>

<b>Instrument</b>	<b>Description</b>	<b>Outputs covered by the instrument</b>
Overall Standards of Performance (OSOPs)	OSOPs set minimum average levels of performance. OSOPs are separately determined by the Authority for each GDN and IGT.	<ul style="list-style-type: none"> <li>▪ Answering telephone calls to the national emergency number, enquiry line and MPRN helpline</li> <li>▪ Providing advance notification of planned supply interruptions</li> <li>▪ Informing consumers of when they are due to be reconnected</li> <li>▪ Responding to complaints</li> <li>▪ Attending controlled and uncontrolled gas emergencies</li> </ul>
Standard Special Condition D10 - Provision of connections information	Standard Special Condition D10 specifies a performance level of 90% against a number of connections standards (consistent with GSOPs). This applies to GDNs only.	<ul style="list-style-type: none"> <li>▪ Timely provision of connection quotes</li> <li>▪ Prompt response to land enquiries</li> <li>▪ Offering commencement and substantial completion dates for connection works</li> <li>▪ Completion of connection works by the agreed date</li> </ul>
Standard Special (Licence) Condition D9 - Outputs reporting	Standard Special (Licence) Condition D9 gives effect to the Regulatory Instructions and Guidance (RIGs). These establish a number of outputs which GDNs are required to collect information on and report to Ofgem against. This applies to GDNs only.	<ul style="list-style-type: none"> <li>▪ Number and duration of interruptions</li> <li>▪ Customer satisfaction survey</li> <li>▪ Mains replacement programme</li> <li>▪ Demand and accuracy of peak demand forecasts</li> <li>▪ Environmental performance: methane emissions and loss of containment incidents</li> <li>▪ New connections completed</li> <li>▪ Re-chargeable diversion schemes completed</li> <li>▪ Publicly reported escapes</li> <li>▪ Gas in buildings</li> <li>▪ Iron fractures and failures</li> </ul>
Uniform Network Code - Shipper Standards of Service	There are a number of service standards and associated compensation payments for GDNs with regard to Shippers specified in the Uniform Network Code.	<ul style="list-style-type: none"> <li>▪ Provision of calorific value information and meter readings</li> <li>▪ Suppressed reconciliation values</li> <li>▪ Site visits</li> <li>▪ Responding to supply point nominations and rejected supply point confirmations</li> <li>▪ Gas not made available for off take</li> <li>▪ Prompt resolution of invoice and operation queries</li> <li>▪ Failures of, and modifications to, UK Link</li> </ul>