
Gas Distribution Price Control Review

Cost Reporting Consultation

A response by Centrica

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Version Number: 1.0
Status: Final
Date Issued: 21st September 2007

INTRODUCTION

Centrica's response to the Gas Distribution Price Control Review: Cost Reporting Consultation contains two parts.

The first section focuses on key issues, setting out our main concerns on reporting and information transparency generally.

The second section addresses those questions specifically raised by the consultation document and related issues.

SECTION 1: KEY ISSUES

Centrica believes there are several general points to be considered in terms of this consultation document, which are set out below. However, as context it is also essential to recognise the two discrete periods which need to be addressed.

Firstly, there is the issue of information disclosure during the price control process. We welcome the efforts that Ofgem has made in this area under GDPCR to improve the information available to stakeholders, but, as we have previously commented, we continue to believe that more can, and should, be done to improve transparency as set out below. We hope that Ofgem will build on GDPCR to make further progress under DPCR5 and all future price controls/key projects.

In our previous responses, we have repeatedly urged Ofgem to consider different approaches such as constructive engagement or negotiated settlement, as adjuncts to the current process. We continue to believe that such approaches, or elements thereof, appropriately applied, could offer real benefits going forward.

Secondly, there is a requirement to address the needs of stakeholders during the subsequent price control period. Clearly, the needs of different stakeholders will vary, reflecting their different positions in the market. For example, consumer organisations are likely to have different requirements to suppliers who need to forecast and budget for future years. We have further expanded our requirements in the rest of this document.

We are very supportive of this consultation, and we welcome the opportunity to feed in our views and requirements.

Information Transparency

Centrica believes that the overriding principle when considering reporting from GDNs to Ofgem and wider stakeholders is information transparency. The GDNs are monopoly businesses, with price controlled revenues funded by the customer and minimal risk. In these circumstances, therefore, we believe that the presumption should always be in favour of disclosure unless, on a case by case basis, non-disclosure can be fully justified. We believe that such cases are likely to be rare, and should be regularly reviewed.

In our view, as a respondent to the price control process, the major difficulty we have experienced is in the continuing asymmetry of information between GDNs and stakeholders. This has impacted on our ability to evaluate the proposals in terms of the likely effect both on Centrica and more widely, which in turn has increased the difficulty of responding effectively to the proposals.

Timeliness & Format

The second principle to be applied in terms of information transparency and reporting is timeliness. Due account needs to be taken of the needs of the audience(s) for whom the report is being prepared, this needs to be balanced against the convenience of the preparer of the report. It is important that the information provided is supplied in a timely manner and in a user friendly format, taking account of all recipients' needs. We address the issue of timeliness in more detail under chapter 2, question 3 below.

Failure to supply information/reports in a timely manner frequently reduces the value of the information provided to the recipients.

One set of numbers

We agree with the consultation document in terms of the desirability of having one set of numbers. Where possible, GDNs should not be required to produce the same information in a number of different reports, instead, we support the use of a single set of combined and conformed reports. However, it will be important that in preparing this combined pack, due

regard is given to the ease of use of the material and that care is taken in terms of presentation to allow users to easily access the information they require.

In our view, it is desirable to have consistent reporting available from a convenient and easily accessible source in a user friendly format. This will need to take account of the different needs of the users of the information, and may mean that presentation in more than one format is required to meet the needs of users, i.e. all numerical data should be issued in Excel.

Hence, we believe it will be possible, in time to reduce the number of existing reports, but it would be prudent to ensure that the new or replacement report is fully functioning and meeting users' needs prior to removing the previous reporting. Whilst, unfortunately, this will lead to replicated effort for a period, we believe that risks associated with a hard cutover to be unacceptable.

SECTION 2: QUESTIONS AS RAISED BY THE DOCUMENT

In this section, we address the questions as listed in the appendix to the consultation document.

Chapter 2: Cost Reporting outputs and timetable

Question 1: Are the proposed contents of the annual report appropriate?

While the annual report for electricity is a good starting position for reporting costs, improvements are needed. We would like to see the following included:

a) GDN complete summaries. The electricity report compares each element of expenditure (i.e. OPEX) across all DNOs in summary tables, but does not summarise total GDN performance – so comparisons against the total Price Control revenue for that year are not readily available.

Overleaf is a simple template of how cost expenditure could be summarised for each GDN. This is basically the same format as that used in the Price Control computations and documents, and would provide a complete summary of GDN performance for external industry members. These summaries at a GDN level could be put into the appendices of the annual report if need be.

b) The RAV summary needs to include Disposals and Capitalised Repex (if applicable).

c) The Operating Costs summary should be split between Controllable and Non-Controllables.

d) Overall Repex expenditure to be tracked in a separate summary schedule

e) Summaries for Tax, Shrinkage, expensed Non-Operational CAPEX (if applicable)

f) Separate schedules detailing performance against each incentive, including IQI

This is based on the assumption that, in addition to the summary annual report, the full RRP pack is published alongside. If this is not the case, then significantly more information would be required in the annual report. The timing of publication is also key, but is addressed under question 3. Ofgem should ensure that numerical data is provided in Excel format, in addition to any other formats offered.

Table 1 – Suggested Template for summary of cost data by GDN

	1	1	1	2	3	4	5
GDPCR 2008-13 Price Control Year	2008/09	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual Expenditure	GDPCR Allowance	Over/(Under) spend to Allowance	GDPCR Allowance	GDPCR Allowance	GDPCR Allowance	GDPCR Allowance
Sample GDN							
Regulated Asset Value (RAV)							
Opening RAV	2,191.70	2,191.70	0.00	2,193.85	2,194.19	2,201.11	2,222.99
New CAPEX	33.00	35.00	(2.00)	29.60	36.50	51.40	40.30
New Capitalised REPEX	45.00	47.00	(2.00)	49.50	49.50	50.20	50.50
Fixed Asset Disposals	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fixed Assets Depreciation	78.00	79.00	(1.00)	78.76	79.08	79.20	79.20
Closing Total RAB	2,191.70	2,194.70	(3.00)	2,194.19	2,200.77	2,230.51	2,234.59
TOTAL ALLOWED REVENUES							
Controllable OPEX	100.00	103.00	(3.00)	103.00	103.00	103.00	103.00
Non Controllable OPEX	50.00	50.00	0.00	45.00	45.00	45.00	45.00
Non Operational CAPEX (if applicable)	25.00	25.00	0.00	22.00	22.00	22.00	22.00
Shrinkage	5.00	5.00	0.00	6.00	6.00	6.00	6.00
Pension	4.00	5.00	(1.00)	5.00	5.00	5.00	5.00
Expensed REPEX (if applicable)	45.00	47.00	(2.00)	47.00	47.00	47.00	47.00
Tax	2.00	2.00	0.00	2.00	2.00	2.00	2.00
Return on RAV	100.00	103.00	(3.00)	103.00	103.00	103.00	103.00
Depreciation	78.00	75.00	3.00	75.00	75.00	75.00	75.00
IQI Incentive	1.00	1.00	0.00	1.00	1.00	1.00	1.00
Over/Under Recovery from previous Price Control year							
Total	410.00	409.00	1.00	409.00	409.00	409.00	409.00

Question 2: Are there any reasons why, consistent with our desire to promote transparency we would not publish RRP data?

Centrica strongly supports information transparency and does not consider that there are any reasons why, given Ofgem's desire to support transparency, that they would not publish the RRP data.

If GDNs believe that certain data items should not be disclosed, we believe it is for GDNs to prove, in every instance, the case for redaction or aggregation. In addition, once approval has been given for redaction or aggregation, this should be subject to review on a regular basis to ensure that the exemption from publication remains appropriate.

Question 3: Do you have views on the annual timetable including deadlines for submission of information to Ofgem?

We believe that the timelines for data submission and publication are too attenuated and should be shortened significantly. Most plcs would expect to produce audited preliminary results within 6-8 weeks of the year end and a formal annual report around 2 months after that. Hence, we do not understand why it should not be possible to produce a regulatory reporting pack and associated report significantly in advance of the 9-10 months referred to in the outline timetable.

We suggest an appropriate timescale would be to publish the RRP by the end of July, and for the annual report to be published by the end of August/early September. Centrica believes the value of this change is that it would allow stakeholders to use the information provided in forming their forecasts and developing new products etc. for the next year. As many stakeholders have a December year end, we would expect that they will generally require such information around September at the latest.

In addition to this revised timescale, we propose that the GDNs should have a two stage open forum within 2-3 weeks of publication of the report, to present the report, and, importantly, to allow stakeholders to enquire into the detail of the report/raise questions and request additional explanation at need.

Chapter 3: Issues

Question 1: Is it realistic to seek to create benchmarking opportunities across sectors for generic costs types, such as indirect costs?

Yes, we believe it is realistic, but care will need to be taken to ensure like for like comparisons. In addition, where such opportunities are created, it is important to quantify the benefits attributed, and report against achievement.

Question 2: How should we determine the criteria for requiring details of cost information from GDNs' service providers, whether they are classified as related parties or not? What practical issues are there in requiring detailed third party cost information?

The key issue is to ensure that sufficient information is provided to fulfil the reporting requirements. In our view, where the third party service provider is a related party, it is essential that detailed information is required from both the third party and the GDN for completeness.

Where the third party service provider is not a related party, it may be that the ability for Ofgem to access (and subsequently publish) information upon request is sufficient. In either case, it should be for the GDNs to ensure that their contracts with their service providers reflect appropriately information and audit requirements specified by Ofgem.

Question 3: Should we seek to collect detailed xoserve data directly from xoserve, or via each GDN's RRP?

In our view, xoserve is clearly a related party (to all of the GDNs) and hence it will be appropriate to require relevant information from both GDNs and xoserve. This will also have the merit of enabling cross checks to take place.

Question 4: Should we look to commission external audit work on any aspect of the RRP or should we rely on our own review process? If so, should we engage auditors directly or rely on the GDNs' statutory auditors?

It would seem reasonable for Ofgem to adopt a reasonably pragmatic approach, seeking to place reliance on other audit work where possible, with the clear aim of minimising costs to customers.

We suggest there are a number of approaches which could be used to good effect, and that a combination of a number of different approaches should produce the best overall result. Where information provided by GDNs is substantiated by the work of their statutory auditors, then permission should be sought for Ofgem to place reliance on this work and the resulting opinion. Where material is not covered at a reasonable level of detail, Ofgem could seek to sample audit, for example, they might vary the areas audited by GDN or topic each year, this could be carried out by Ofgem staff, and subject to a more formal audit if any issues arise.

Question 5: Do the regulatory accounts as they stand provide value to stakeholders?

We consider that the regulatory accounts do add value to stakeholders. Given the GDNs are part of larger corporate groups, we believe it is helpful to have a set of audited accounts reflecting only the regulated business as opposed to the consolidated view given in the annual report.

In addition, the regulatory accounts add value by providing, year on year, a time series of data on a robustly comparable basis.

Question 6: Under what circumstances, if any, should we consider relaxing the requirement to publish audited regulatory accounts?

Question 7: Under what circumstances, if any, should we consider relaxing the requirements to submit a statement of allocation of costs and revenues and to have the application of that methodology audited?

In considering whether to relax the requirement to produce regulatory accounts, it will be necessary to be sure that the functions served by those accounts are achieved, to at least the same standard, in other ways. It will be relevant to consider, as part of this review, the degree to which the RRP and annual report are audited, the level of detail and commentary provided and the degree of redaction in the RRP.

It may also be possible, at a later date, to consider inclusion of elements of the regulatory accounts within the RRP or annual report pack, for example, a balance sheet, an income statement and other relevant tables.

We therefore recommend that the RRP and annual report is implemented first. Once this has been established as being robust, with a reasonable time series of data built up, it would then be appropriate to consider removal or amendment of the regulatory accounts requirement.