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## Gas Distribution Price Control Review

### ***DRAFT*** Price Control Cost Reporting Rules: Instructions & Guidance

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Ref: **Insert Reference**

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**Target Audience:** Gas distribution networks (GDNs), independent gas transporters (IGTs), gas shippers and suppliers, consumers and their representatives, and any other interested parties.

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#### **Overview:**

This document contains the rules to provide a framework for the collection and provision of accurate and consistent cost information from the Gas Distribution Networks. This version of the rules will apply for reporting for the year ending 31 March 2008.

The supplementary appendices set out the purpose of and contain the instructions for completion of each table in the Regulatory Reporting Pack (RRP), the definitions to be applied in completing the RRP and the cost commentary.

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## Context

This document contains the Price Control Review Reporting Rules ("the rules").

The purpose of these rules is to provide a framework for the collection and provision of accurate and consistent cost information from the Gas Distribution Networks (GDNs), in accordance with standard special condition A40 (Price Control Review Information) of the gas transporter's licence (the "licence").

This version of the rules will apply for reporting for the year ending 31 March 2008. Revised versions of the rules may apply for subsequent years.

## Associated Documents

- GDPCR Final Proposals, December 2007 (Ref. 285/07);
- GDPCR Cost Reporting Consultation (Ref.185/07); and
- GDPCR One Year Control Final Proposals, December 2006 (Ref. 205/06).

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## 1. Introduction

1.1. The Price Control Review Reporting Rules (“the rules”) have been produced in accordance with Standard Special Condition A40 (Price Control Review Information) (“SSC A40”) of the gas transporter’s licence (the “licence”), hereafter referred to as SSC A40. The purpose of these rules is to provide a framework for the collection and provision of accurate and consistent information from the GDNs. This is important as it informs Ofgem of GDN performance and should contribute to improving regulatory transparency and certainty. The benefits of improvements in the quality of information should be realised by all those with an interest in the regulation of GDNs, including customers and their representatives, Ofgem and the GDNs themselves.

1.2. The rules include definitions and related instructions and guidance for preparing the annual information submissions. For the avoidance of doubt, these rules are subordinate to the licence conditions. Consequently, the rules will not change any definitions or obligations contained within the gas transporter licence applicable to the GDNs and in the event of any dispute, the licence conditions will always take precedence.

1.3. Any future changes to the rules will comply with the change process set out in paragraphs 13 to 15 of SSC A40.

### Structure of this document

1.4. The rules cover the following main areas:

- chapter 2 – sets out the purpose and objectives of the cost reporting rules;
- chapter 3 – details the reporting arrangements;
- chapter 4 – sets out the required levels of accuracy for reporting;
- chapter 5 – sets out the purpose of the rules, the instructions for completing the Regulatory Reporting Pack (RRP) and the definitions to be applied;
- chapter 6 – summarises the RRP and cost commentary to be submitted annually;
- chapter 7 – sets out the current position in relation to the publication of summary information and the annual RAV; and
- appendix 1 - discusses the Authorities' powers and duties.

1.5. The supplementary appendices document consists of the following:

- appendix 2 – sets out the purpose and instructions for completion of each table in the RRP;
- appendix 3 – lists the detailed definitions to be applied in completing the RRP;
- appendix 4 – includes the Regulatory Reporting Pack (RRP); and
- appendix 5 – attaches the cost commentary document.

**Comment [FIX1]:** Edward's comment - do you want to use Title case for chapters and appendix

## 2. Purpose and Objectives of the Rules

### Introduction

2.1. The rules provide a framework for the collection and provision of accurate and consistent information for annual cost reporting by GDNs. The output from this process will be the GDNs' completed RRP and the completed cost commentary. Ofgem<sup>1</sup> will use this information to:

- facilitate effective monitoring of expenditure compared to price control allowances;
- allow an interim RAV figure to be calculated;
- enable the reconciliation of reported costs in the RRP to the amounts in each GDN's regulatory accounts; and
- inform future price control reviews.

2.2. The objectives of these rules is to provide a framework for the collection and provision of accurate and consistent cost information from the Gas Distribution Networks (GDNs), in accordance with standard special condition A40 (Price Control Review Information) of the gas transporter's licence (the "licence"). This will:

- reduce the burden on GDNs to provide financial and other information at the time of a price control review; and
- avoid varying interpretations of definitions and reporting requirements.

2.3. Both GDNs and Ofgem recognise that it is imperative to have a robust structure in place for monitoring performance and informing the next price control review (GPCR2) based on consistent interpretation by GDNs of definitions and reporting requirements.

### Cost categories

#### **Metering, excluded services, de minimis and other activities**

2.4. The rules cover the disclosure of the costs of providing metering services, excluded services, services specifically consented to by the Authority and de minimis activities. These costs are required to reconcile the total costs in the regulatory accounts to the businesses and activities of the licensee and to inform future price control reviews.

#### **Pass-through costs**

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<sup>1</sup> Ofgem is the Office of Gas and Electricity Markets Authority.

2.5. Certain costs were considered to be pass-through costs and others are 'outside the price control'. The rules require such costs to be disclosed. Pass-through costs consist of:

- network business rates;
- Distribution Network licence fees;
- NTS Pension deficit charges to the Distribution Network;
- payments to suppliers in respect of the costs of investigations into gas illegally taken;
- payments made in respect of third party damage and water ingress; and
- any other items designated in special condition E3 (Distribution Network allowed pass-through items) of the licence as pass-through costs, including any costs to be treated as miscellaneous pass-through items as directed by the Authority.

### Pensions

2.6. In setting allowances, Ofgem determined that if a GDN's actual cash contribution rate differs from the rate included in the calculation of revenue allowances per the Gas Distribution Price Control Review (GDPCR) final proposals document, an adjustment to future revenue in the next price control will be made to correct the difference. The RRP will collect the data necessary to monitor pensions against the allowance to enable the correct adjustment to be calculated.

**Comment [FIX2]:** Edward's comment - please see "context". This E3 takes effect from 1/4/8. You are devising rules up to 31/3/08 so you need outgoing.

## 3. Reporting Arrangements

### Introduction

3.1. It is important that robust arrangements are put in place for the reporting of information required under SSC A40. This section sets out the reporting arrangements to apply for each financial year.

**Comment [FIX3]:** Edward's comment - please clarify

### Requirements of SSC A40

3.2. In accordance with SSC A40 the rules may, in relation to any requirement of the condition in respect of the price control review information, specify:

- a. the meaning to be applied to words and phrases (other than those defined in any condition in the licences) used in connection with such information;
- b. the methodology for calculating or deriving numbers comprising any part of such information;
- c. requirements as to the form and manner in which such information must be recorded;
- d. requirements as to the standards of accuracy and reliability with which information must be recorded;
- e. requirements as to the form and the content of such information;
- f. requirements as to the manner in which such information must be provided to the Authority; and
- g. requirements as to those parts of such information which may be considered by a reviewer and the nature of that consideration,

and (having particular regard to section 105 of the Utilities Act 2000) may also specify which (if any) of the information provided under the licence conditions is to be subject to publication by the Authority.

### Reporting year

3.3. The financial year for the provision of information required under SSC A40 will be a period of 12 months commencing on 1 April of each year and ending on 31 March of the following calendar year. Any changes to the rules will be consulted on in accordance with the provisions of the relevant licence condition.

### Submission

3.4. GDNs must provide the information required under SSC A40 as soon as reasonably practicable, and in any event, not later than 31 July following the end of the financial year to which such information relates, unless the Authority has previously consented otherwise in writing.

3.5. The submission should be accompanied by a letter signed by a director on behalf of the licensee confirming that the pack has been completed in accordance with these rules.

3.6. Any resubmissions of the pack are only to be made by agreement between Ofgem and the licensee and in any such instance the pack should be resubmitted in full. The resubmission should only be accompanied by a letter signed by a director where significant changes have been made and Ofgem or the licensee decide such a letter is required.

## **Review**

3.7. Once the GDNs have submitted the information to Ofgem or a person nominated by Ofgem (“a reviewer”) will undertake a detailed review of the information. Such a review may include a review visit to each GDN for discussion of the information submitted. Such visits will be agreed in advance with the licensees.

3.8. Where a reviewer has been nominated, then in accordance with paragraph 7 of SSC A40, the reviewer will enter into an agreement with the licensee to maintain confidentiality on reasonable terms.

## **Queries on completion or discovery of errors**

3.9. For all queries on completion of the cost reporting pack or if any formula errors or other such errors are discovered on completion, an email should be sent to:

mike.begley@ofgem.gov.uk

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## 4. Accuracy for Reporting

### Introduction

4.1. All information provided should be an accurate representation of the information available to the licensee.

4.2. Except where specifically instructed otherwise, all financial data should be submitted in £ millions rounded to the nearest £100,000 (i.e. to one decimal place).

4.3. Except where specifically instructed otherwise, non financial data should be submitted to the following levels of accuracy:

- Length of mains or service pipes - in km to the nearest metre (ie to three decimal places);
- Number of jobs - in whole units;
- FTEs - to the nearest 0.56 FTE; and
- Any other unit - to the level of accuracy given in the licence.

4.4. Where a licensee (and any affiliate or related undertaking of the licensee [or certain contractors that may not fall into these categories]) does not capture data on the same basis as the cost reporting definitions, and in completing the tables the licensee has to apportion costs across one or more activities, the basis of apportionment must be provided in the cost commentary document and the licensee's assessment of the robustness of their assumptions must be stated.

4.5. Where a modification of the rules results in a requirement to provide:

- a. data for a new cost category or activity; or
- b. an existing cost category or activity to a greater level of detail,

and in either case such information has not previously been collected by the licensee (under the provisions of these rules or otherwise), the licensee shall provide estimates in respect of that category or activity, for the year in which the modification is made and for any preceding year, derived from such other information available to the licensee as may be appropriate for that purpose; and shall set out the basis and methodology for deriving the estimated amounts in sufficient detail in the cost commentary.

4.6. Consequently the reporting pack will include (for the specific tables affected by a change in basis):

- current year (on latest basis);
- previous year (on previous basis); and either
- current year (on previous basis); or
- previous year (on latest basis).

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## 5. Purpose, Instructions and Definitions

### Introduction

5.1. This section refers to the purpose, instructions and definitions for completion and submission of the RRP to enable Ofgem to monitor performance against allowances and to roll forward the Regulatory Asset Value (RAV).

### Purpose and instructions for completion

5.2. The purpose of these rules is to provide a framework for the collection from, and provision of accurate and consistent information by, the GDNs for such aspects of the licensee's distribution business and of the business of each affiliate or related undertaking of the licensee that either directly or indirectly provides goods and/or services to the licensee or forms part of the distribution business, either separately or consolidated and in such manner as is required under these rules, e.g. affiliates undertaking connections business.

5.3. Appendix 2 sets out the detailed instructions and guidance for completion of each of the tables in the RRP. These instructions are to be strictly followed and must be read in conjunction with and must apply the definitions in Appendix 3.

### Definitions

5.4. In accordance with SS40, the rules define the meaning to be applied to words and phrases other than those defined in that or any other standard or special licence conditions. Deviations from those definitions are not permitted. Appendix 3 sets out the detailed definitions.

**Comment [FIX4]:** Edward's comment - please clarify

## 6. RRP Tables and Commentary

### RRP

6.1. The RRP at Appendix 4 is provided in Excel spreadsheet format to GDNs and should be submitted in electronic format to Ofgem, together with the separate RRP cost commentary document attached at Appendix 5. The RRP must be submitted as an Excel file and the commentary as a Word file. Submissions of the RRP and cost commentary as portable document format (“PDF”) files are not permissible.

### Commentary

6.2. The cost commentary at Appendix 5 provides the opportunity for GDNs to explain why costs have been incurred and the annual movements in cost levels (set out in table 2.5). It will be used in conjunction with the financial tables, to understand the structures and operations of each GDN, to inform the next price control and to monitor GDNs’ performance against Ofgem’s assumptions for costs included in the GDPCR final proposals document.

## 7. Publication

7.1. A number of GDNs consider some of the information provided in the RRP to be commercially sensitive.

7.2. Ofgem is bound by the requirements of section 105 of the Utilities Act 2000 relating to the disclosure of information.

7.3. Ofgem recognises the value of improving transparency of information in regulating natural monopolies.

7.4. In particular, Ofgem intends to publish an annual cost review which will include:

- a provisional calculation of the Regulatory Asset Value for each GDN each year;
- comparisons to GDPCR allowances; and
- summary and detailed activity analysis.

7.5. It is Ofgem's intention to continue to review whether to publish further disaggregated data and analysis.

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## Appendices

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5	Cost Commentary	

Appendices 2-5 are contained in a supplementary appendices document, ref: XX/08

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## Appendix 1 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority’s powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. The Authority also has other statutory duties in respect of the environment, as set out in various other Acts<sup>2</sup>. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.<sup>3</sup>

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly<sup>4</sup>.

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them<sup>5</sup>; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.<sup>6</sup>

<sup>2</sup> For example, the Environment Act 1995 and the Countryside and Rights of Way Act 2000.

<sup>3</sup> entitled “Gas Supply” and “Electricity Supply” respectively.

<sup>4</sup> However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

<sup>5</sup> under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

<sup>6</sup> The Authority may have regard to other descriptions of consumers.

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1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed<sup>7</sup> under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8 The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation<sup>8</sup> and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

1.9 The Authority has regard to all of its duties when carrying out its functions.

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<sup>7</sup> or persons authorised by exemptions to carry on any activity.

<sup>8</sup> Council Regulation (EC) 1/2003