

## **Cost survey *pro forma* – guidance for completion**

### **Purpose**

This guidance document has been developed to support the proforma questionnaires on the costs that would arise from the implementation of enduring offtake reform and the associated incentives outlined in our Final Proposals<sup>1</sup>.

In assessing Uniform Network Code (UNC) Modification Proposals 0116V, 0116BV, 0116CVV, 0116VD, 0195 and 0195AV, we will need to consider the potential cost impact of these proposals. To this end, we have developed pro formas for both:

- Gas Transporters (GTs) and the Agency, and
- shippers and Transmission Connected Customers (TCCs)

through which relevant and detailed information regarding costs can be provided.

This document:

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

### **Principles**

The attached pro formas have been developed to enable us to gain an understanding of the implications of the UNC Modification Proposals and associated incentives that would be placed upon NGG NTS.

These pro formas have been developed to ensure high-level consistency across submissions, whilst recognising the differing characteristics of respondents and therefore allowing some freedom in the format and disaggregation of detailed cost data and assumptions provided.

We recognise that, in order to provide detailed and consistent cost estimates, respondents need to understand, at a high level, the implications of the specific arrangements proposed for their businesses. To do this, a separate assumptions document has been prepared (included as part of this set of documentation) that summarises the high-level proposals presented in the UNC Modification Proposals and details key assumptions that respondents should make in estimating the cost impact of the proposals for them. We consider that these assumptions should provide sufficient information for respondents to assess the cost implications of these proposals for enduring offtake arrangements.

As part of the last cost proforma on enduring gas offtake reform, a number of respondents when pressed by Ofgem conceded that some of their cost estimates represented the 'worst case' scenario despite our request that cost estimates should represent the most likely outcome (i.e. base case/ median estimates). As a result Ofgem will be carefully scrutinising the information supplied to it, and if

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<sup>1</sup> *TPCR 2007-2012 Final Proposals*, December 2006 (Ref No. 206/06)  
*TPCR 2007-2012 Final Proposals*, Appendices, December 2006 (Ref No. 206/06b)

we believe that individual respondents have overstated their cost submissions then Ofgem may formally request this information again, under the relevant licence condition and this carries serious consequences if any respondent is found to have provided false or mis-leading information.

## High-level guidance

When completing the pro forma, respondents should:

- consider the potential impact on ***their business alone*** – the costs incurred by other parties should not be estimated as part of this submission, for example:
  - GTs should not include any costs incurred by the Agency in their submissions, and
  - TCCs should not include any costs incurred by their shipper(s)
- consider the potential impact in terms of the ***incremental costs of implementing*** the changes proposed only – please do not include a quantification of the expected change in your business's net financial position as a result of an expectation of changes to risks or charges faced as a result of the proposed reform or the cost of implementing systems to mitigate the impact of such risks or charges
- estimate the costs incurred ***relative to the transitional arrangements***, and as such 'net off' any benefits that may result from implementation of the proposed framework, for example, if the proposals require an additional 2 Full Time Equivalents (FTEs), yet replace a current process requiring 1 FTE, then the net impact is an additional 1 FTE. Net benefits should be expressed as negative figures
- ***exclude*** the costs of ***process or system changes*** that would be ***required absent enduring offtake reforms***
- exclude any costs that have already been incurred – the assessment provided should be ***forward looking*** in nature, considering potential costs that would be incurred after implementation of the relevant Modification Proposal
- ***where the assumptions document does not detail the outcome in a particular area***, please provide an estimate of the costs imposed by the ***lowest cost solution***, with estimation of the additional costs that would be incurred, should a more costly solution be adopted, provided in the commentary
- provide ***separate cost information for each jurisdiction in which they operate*** (e.g. shippers that arrange for the transportation of gas both within GB, and across an interconnector should provide separate cost submissions for both of these operations)
- provide cost estimates that represent the ***most likely outcome*** i.e. base case / median estimates – any worst case scenarios and assessment of risks should form part of the detailed commentary provided
- provide examples, as appropriate, of similar processes where actual costs are incurred to help justify the reasonableness of estimated costs

- distinguish between **implementation (one-off)** and **ongoing costs**
- ensure that the costs of introducing new systems and processes are only included where the introduction of such measures is **efficient and necessary**
- submit costs in thousands of pounds (**£k**), specified in 2008 prices, and
- **provide sufficient detail** i.e. disaggregation of cost data / documentation of assumptions to allow an understanding of the derivation of high-level estimates, ideally providing:
  - cost drivers i.e. what causes costs to change, and
  - a break down by cost category, as appropriate, as well as a more detailed explanation of what the costs represent

### **Overview of pro forma**

The pro forma designed for TCCs and shippers has a section on business characteristics, which is described below.

#### ***Business characteristics (only applicable to TCCs and shippers)***

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

- TCC characteristics, and
- shipper characteristics

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

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

#### ***TCC businesses***

Relevant data fields include:

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

#### ***Shipper businesses***

Data fields include:

- total annual offtake of gas from NTS represented by your business (measured in therms)
- total firm daily entitlement to offtake gas from the NTS represented by your business (measured in therms)
- total interruptible daily entitlement to offtake gas from the NTS represented by your business (measured in therms)
- total number of NTS offtake points represented by your business (including interconnector and storage sites)
- number of interconnector NTS offtake points represented by your business
- number of storage site offtake points represented by your business, and
- number of NTS offtake points represented by your business with shared supply arrangements (excluding storage sites and interconnectors)

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

### ***Modification Proposals***

Cost estimates provided by all respondents should be entered into the relevant sheet specific to the Modification Proposal being assessed. A separate cost submission sheet has been provided for Modification Proposal 0116V, Modification Proposal 0116BV, Modification Proposal 0116CVV, Modification Proposal 0116VD, Modification Proposal 0195 and Modification Proposal 0195AV. It is assumed that each of these Modification Proposals will be considered relative to the retention of the transitional arrangements as represented by Modification Proposal 0116A.

The assumptions paper details the proposed arrangements, which should be assessed in relation to the transitional arrangements and sets out our initial high-level view of the implications of the proposals for offtake arrangements for industry participants.

Within each area, the pro forma requests information on:

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

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

- IT systems costs
- staff costs, and
- other

Where applicable, net benefits should be expressed as negative figures.

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

the staff cost total and FTE numbers submitted. Please sense check the number generated.

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

### ***Detailed commentary***

The data fields on the pro forma have been kept to a small number to reflect the differing characteristics and estimation methodologies of each respondent. However, as a result, it is extremely important that there is sufficient documentation of the estimation methodologies and assumptions applied to allow us to understand the key cost drivers and any underlying differences in views between respondents.

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

We would expect the commentary to detail the following:

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

### ***Summary***

The final sheet of the pro forma summarises the data provided on a single sheet in the same format as above. The formulae have been hard-coded into the spreadsheet and therefore data entry should not be required.

### ***Queries***

Should you have any queries regarding the content of this pro forma, please contact Nienke Hendriks on 020 7901 7329 or Paul O'Donovan on 020 7901 7414.

### ***Submission deadline***

The information requested should be returned to Ofgem, by e-mail, by close of business on 12 May 2008. Please e-mail responses to [GasTransmission@ofgem.gov.uk](mailto:GasTransmission@ofgem.gov.uk)