

4 April 2008

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Dear Kieran

Ofgem Consultation on Reporting Arrangements Applying to Gas Distribution Networks

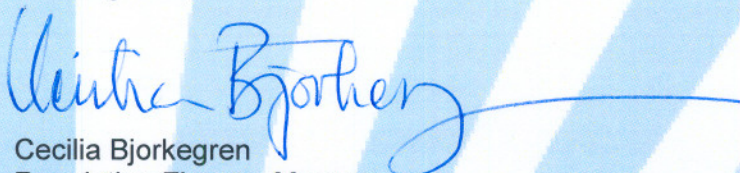
Thank you for the opportunity to comment to the consultation on 'Reporting arrangement applying to gas distribution networks'. As a gas distribution network, NGN has already been able to give feedback on all three reporting arrangements throughout the working group process.

Our additional comments are included in the attached Annexes, one for each reporting arrangement.

If you have any questions or need further clarification, please do not hesitate to contact us.

Nothing in the attached response is deemed confidential.

Best regards,



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ANNEX A – COST REPORTING RESPONSE

NGN supports the objectives behind the Cost Reporting initiative. The ability to confidently compare costs between networks will provide a strong incentive to improve efficiency throughout the price control.

However, as the exercise requires a large resource commitment it is critical that the final output does indeed meet the stated objectives. The current draft enables comparability to a degree; however there are still a couple of critical items that need to be further developed to improve the ability to create truly comparable data:

a) Cost Matrix Table (2.6). NGN believes that this table's function is to drive detailed comparability checks and hence it is a very important table. It is critical that the instructions are prescriptive enough to ensure that all networks complete the table at a similar level of detail. Currently, the Guidance states that 'an appropriate level' of detail is required. This needs to be more prescriptive to ensure consistency.

b) Definitions. It is very important that definitions are clear and specific to reduce the amount of potential interpretive differences between networks. The activity definitions are already close to being finalised. However, a number of cost categories are missing from the definitions document, specifically environmental remediation, reinstatement, and transport and plant. There are also a few items which are not specifically mentioned in the draft activity definitions which would be helpful to include (see Appendix 1 for detail).

c) Related Parties. The treatment of related parties and major outsource providers has been discussed extensively in the working groups. However, the guidance has not yet been updated to reflect the outcome of these discussions. As discussed previously, NGN does not consider UUOL a related party and it should not be treated as such in the cost reporting tables. As agreed with Ofgem, NGN will report UUOL's costs as if they were NGN's own operations. In addition, NGN will provide information about the total included amount of any management fees, profits or margins paid to the outsource provider where these form an expressed term of the agreement. NGN will also reveal how these costs have been allocated across the activities. Please see Appendix 1 for NGN's proposed guidance drafting on this matter.

With regards to the specific questions asked in the consultation:

Are the reporting arrangements set at an appropriate level of detail?

The level of detail included in the current cost reporting drafts is very detailed. A certain amount of estimated allocation will be necessary, especially in the initial years. NGN sees no benefit in increasing the level of detail required. On the contrary, part of the first year's cost reporting process should be a post implementation review to check whether there are any areas of detail that were not actively used by Ofgem and therefore not needed in future reports.

Is the scope of the reporting arrangements appropriate?

The scope as per the current draft is appropriate. We cannot see the benefit of any potential increases in scope.

Do the reporting arrangements omit any relevant categories of information?

No, in NGN's view, there are no omissions of relevant information.

Detailed comments on the current draft (as issued with this consultation) are provided in Appendix 1.

The remaining concern for NGN is one of process. We recognise that this reporting requires a large amount of up front detailed work to ensure the desired outcome. So far, the progress on

the detailed guidance and tables has been a bit slower than expected. Ofgem therefore needs to finalise the definitions and tables as soon as possible in order for all networks to have a reasonable chance of completing the tables without undue time pressure. Therefore, it is critical that a deadline for final spreadsheet testing and publication/distribution is set as soon as possible.

Please note that since the current draft format still requires work the comments in this response cannot be regarded as completely final, i.e. additional comments may be forthcoming through any future working groups or similar.

ANNEX A - APPENDIX 1

Detailed Comments Cost Reporting

The comments below are additional to any previous feedback provided through the working group and e-mail correspondence.

Guidance

The Guidance must be updated for the treatment of related parties and substantial outsource providers. Below is NGN's suggested drafting.

Costs for Affiliates and related parties

1.15. Except where otherwise indicated, costs should include the underlying costs of related parties in performing the licensee's activities, without any management fees, profit or margin for those related parties. For the purpose of this paragraph, related parties include:

- any "related undertaking" or "affiliate" as defined in the distribution licence;
- xoserve Limited; and
- Fulcrum Connections Limited.

Treatment of Companies who outsource substantial elements of their Activity

1.16 Where substantive elements (i.e. greater than 20% of the GDN's costs) of the GDNs' operations are subcontracted costs should be reported at the same level as if they were carried out by the licensee.

1.17 Where operations are subcontracted to a related party then in accordance with paragraph 1.15 costs should be reported without any management fees, profit or margin.

1.18 Where operations are subcontracted to a party who is not a related party then the total costs should be reported. The GDN should in addition report the total amount of any management fees, profits or margins paid to the sub-contractor where these form an expressed term of the agreement with the sub-contractor together with details of how these fees, profits or margins have been allocated across activities.

Definitions

Clarify in which activity the following items should be included:

- Xoserve (opex portion)
- UNC admin

- GS/VS payments (as compared to actual admin process)
- Service Alterations

Clarify whether any of these items would count as cash atypicals:

- GS/VS payments
- Ex gratia payments
- Ofgem/HSE fines

Tables

Please note that NGN is waiting for the final tables to sensecheck formulas and has therefore not included any comments below.

Table 3.5 Connections Governors. NGN's current reporting systems do not separate the cost of Connections Governors from other connections costs. Further, these costs were not treated separately during allowance setting. Therefore, NGN does not think the current granularity of data required is necessary.

Table 3.10 Repex Mains. Since contributions are not (currently) collected for incentivised mains, the corresponding cells should be coloured in grey.

ANNEX B – REVENUE REPORTING RESPONSE

NGN supports the objectives of the Revenue Reporting process and welcomes the consolidation of the reporting obligations in the Licence.

Overall, NGN has no additional changes to the model or guidance, as the working group process has worked well. We especially welcome the addition of a simplified forecast return sheet. However, NGN has three outstanding concerns:

- 1) The AUPs have not yet been agreed. This is complicating our internal planning and is making the deadline of 31 July more difficult to hit considering we do not know exactly how much time our auditors need. It is therefore critical that the AUPs are finalised as soon as possible.
- 2) It is unclear from the Guidance what level of sign off is required for the forecast submissions (Director?/Board?/Auditor?). It is also unclear what this signature is covering. By definition, the forecasts are based on assumptions about future performance. Therefore, it would be appropriate for NGN to assure that reasonable endeavours have been made to create the forecast based on current best estimates. Anything more absolute would be inappropriate.
- 3) The level of detail of data published in the public domain needs to be clarified further in the Guidance. The level of detail of the 'TransAct Detailed Return' sheet is the lowest level of detail with which NGN would feel comfortable.

ANNEX C – QUALITY OF SERVICE RESPONSE

The comments below are additional to any previous feedback provided through the working group and e-mail correspondence.

Customer Satisfaction Survey Templates

Question 7 in the planned work Survey and Question 11 in the unplanned survey both refer to communication from the DN and generally score low. This may be due to the fact that most of the face to face contacts with the customer particularly in NGN's case are with our contractors. Therefore communication from NGN directly is pretty negligible and this may be causing it to score low.

To try and overcome this problem in these questions the words "or their contractors" should be added after the company name.