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Northern Gas Networks

we are the network

RIIO GD2 CAWG 2 – 5 Sept 2018

Review of GD1 cost aggregation and drivers and proposals for GD2

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Opex – aggregation of costs and drivers

RIIO-GD1

Activity	Driver
Asset Management Operations Management Customer Management System Operations Work Management	• MEAV
Emergency	• No. of Customers • External Condition Reports • Metering adjustment
Repair	• External Condition Repairs
Maintenance	• Maintenance MEAV
Business Support	• Normalised gross cost basis • Insurance and Logistics considered separately – as plan • Composite driver weighted according to relative spend on 6 remaining elements • Compared UQ to Hackett UQ • Reg. Premium adjustment • Reviewed qualitative evidence

RIIO-GD2

Activity	Driver
Emergency Repair Customer Management % Operations Management Repex Other Services	• No. of Customers • PREs • External Condition Reports and Other Services – potentially by diameter band • Potential metering adjustment
Maintenance % Operations Management	• Replacement value doesn't drive costs – asset counts needs weighting by industry spend • Potential split between routine – non routine – which could be added into Capex – otherwise need to understand if there are allocation issues across the GDNs
Asset Management System Operations Business Support	• Single vs Multiple GDN adjustment for Fixed / Variable Costs • MEAV reasonable driver for AM / SO • IT – potentially combine opex and capex. Need to consider whether this applies to assets as well

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Capex – aggregation of costs and drivers

RIIO-GD1	
Activity	**Driver**
LTS and Storage	• Non regression analysis
Connections and Fuel Poor	• Gross synthetic unit costs • Assumed recovery rate • Fuel Poor considered separately – most ok but SGN scaled back
Mains reinforcement	• Synthetic unit costs
Governor replacement	• Non regression analysis – bottom up looking at work and unit cost
Other Capex	• Non regression analysis • Vehicles – average spend over 7 years based on 7 year replacement cycle • Xoserve forecast • IT Capex – Fixed and Variable split 30/70 – amended based on number of GDNs owned

RIIO-GD2	
Activity	**Driver**
LTS and Storage	• Non regression analysis • Link to asset health / non routine maintenance
Connections	• New gross synthetic unit costs • Split Fixed (20%) vs Variable • Assumed recovery rate • Could include FP as another activity
Mains reinforcement	• New synthetic unit costs – gross
Governor replacement	• Non regression analysis
Other Capex	• Non regression analysis • IT – link to Opex costs and change assumptions on split • Link to asset health / non routine maintenance

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Repex – aggregation of costs and drivers

RIIO-GD1	
Activity	**Driver**
Mains and Services	• Synthetic unit costs
Other Services Rechargeable Diversions MOBs	• Non regression analysis

RIIO-GD2	
Activity	**Driver**
Mains and Services	• New synthetic unit costs
Rechargeable Diversions MOBs	• Non regression analysis
Other Services	• Link to Emergency and Repair in Opex

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Totex benchmarking

RIIO-GD1	
Activity	**Driver**
Opex 7 year moving average for Capex Repex	• MEAV 37% • Maintenance MEAV 5% • Repex workload 42% • Emergency CSV 6% • Connections workload 2% • Mains workload 2% • External Reports 6%

RIIO-GD2	
Activity	**Driver**
Opex 13 year moving average for Capex Repex	Need to reflect drivers on previous slide Calibration of weightings key MEAV needs careful review – as discussed replacement value doesn't drive costs

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Cost adjustments

- Regional factors
- Streetworks
- Metering
- RPEs
- Pensions Incremental deficit
  - Should form part of the Totex controllable costs for GD2 benchmarking