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RIIO-GD2 - CAWG3: Regional Factors

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Cadent
Your Gas Network

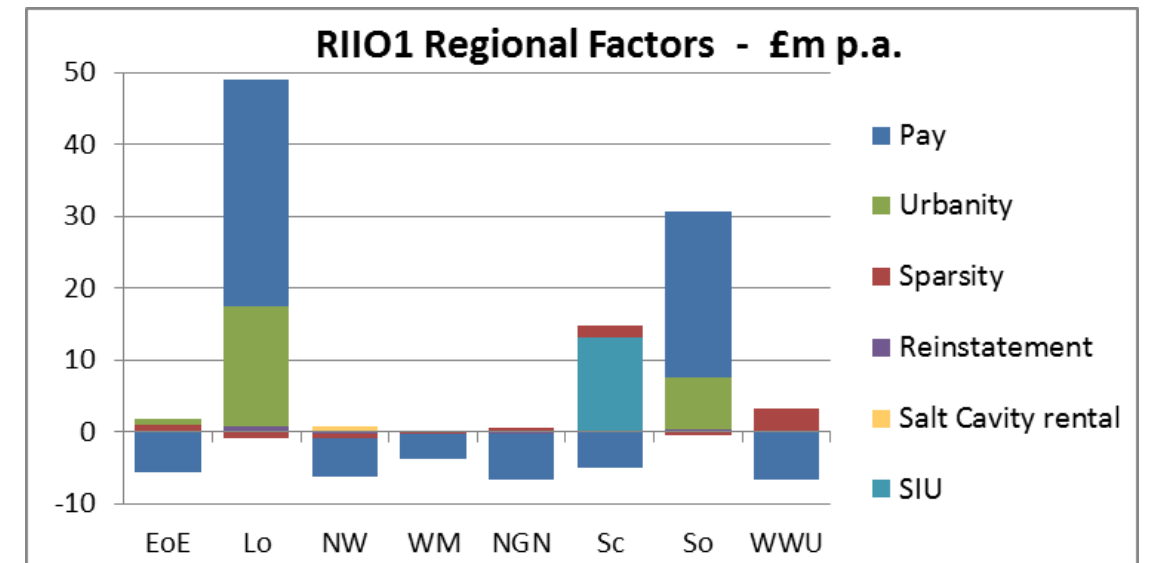
Contents

- **How Regional Factors were determined and applied at RIIO-GD1**
- **What might the process for determining where a regional factor should be applied look like?**
- **Should anything be changed, added or removed for RIIO-GD2?**

Overview of Regional Factors at RIIO-GD1

- **Pay** – estimate of the difference in efficient labour costs between GDNs experienced due to geographical location
- **Urbanity** - estimate of efficient additional cost experienced by GDNs working in highly urban environments
- **Sparsity** – estimate of the efficient additional cost experienced by GDNs working in highly rural environments
- **Reinstatement** – estimate of efficient additional reinstatement & transport costs experienced by GDNs working in highly urban environments
- **Salt cavity** costs – storage rental and estimated maintenance costs
- **Scottish Independent Undertakings** – estimate of additional LNG, transportation and other costs of serving isolated independent networks

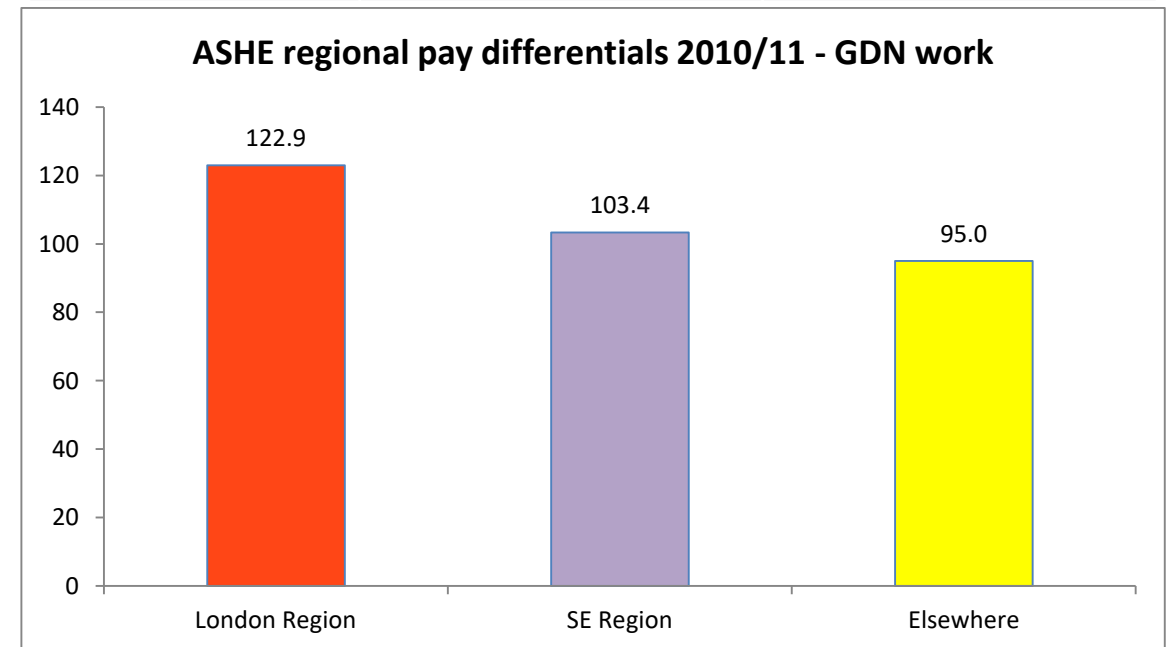
Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independent Undertakings	Sc	N/A



How RFs were determined and applied at RIIO-GD1 - Pay

- Calculated using
 - ONS Annual Survey of Hours and Earnings (ASHE) by geographical region, 3 digit SOC code for 2010/11 (with sight of 2008/09 onwards)
 - GDN data for split of labour between SOC codes
 - Local authority population data to map ASHE regional data onto GDN areas
- Detailed application
 - Covered both employees and contractors
 - Two way adjustment – specific upward for Lo, So, EoE (Tott'm), uniform downward for other GDNs
 - Applied to GDN reported labour cost data, and BP projections of labour cost proportions
 - Only applied where local labour required e.g. not for Business Support, 40% of Work Management, 100% repex

Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independents	Sc	N/A



How RFs were determined and applied at RIIO-GD1 - urbanity

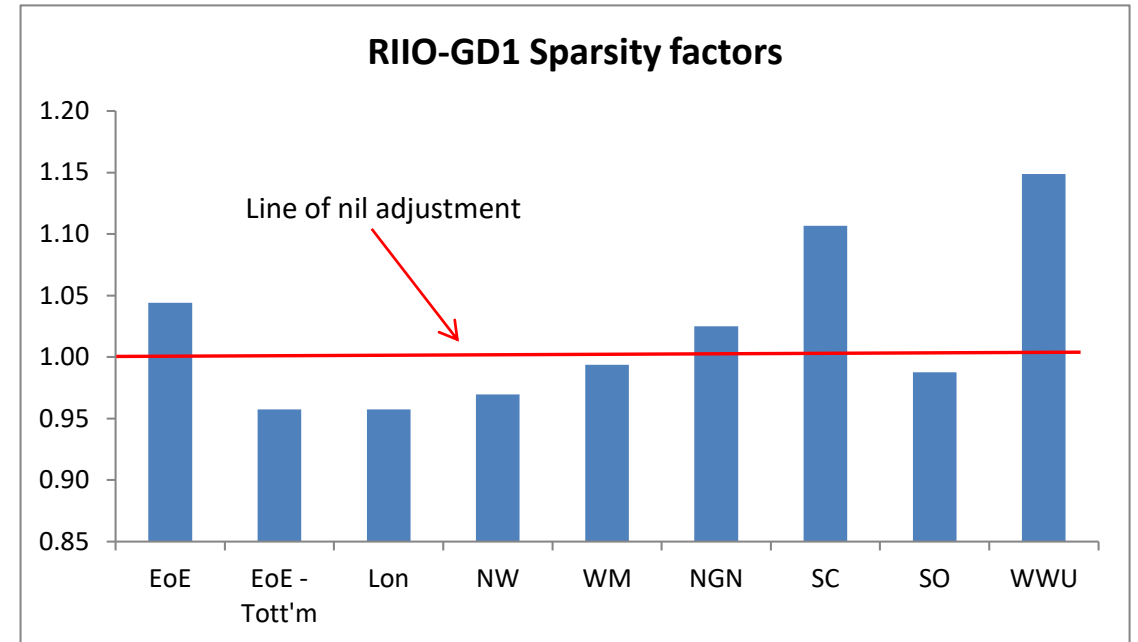
- Calculated using
 - A report by an SGN contractor showing additional repex productivity related costs of between 15% and 20% for working in London
 - Ofgem selected 15%
 - Cadent and SGN identified a number of other London related urbanity factors that were not adopted by Ofgem
- Detailed application
 - To labour costs within M25
 - Used Local Authority population data to divide Lo, So, EoE GDNs in and out of M25
 - One way adjustment
 - Applied to GDN reported and BP projected labour cost data
 - Covered both employees and contractors

Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independents	Sc	N/A

How RFs were determined and applied at RIIO-GD1 – sparsity

- Calculated using
 - An estimate of additional costs incurred by the most sparse GDN – WWU
 - Local Authority density data (km², population), mapped onto GDN areas, excluding L.A.s where no gas
- Detailed application
 - For those parts of GDN areas with lower than average population density
 - Two way adjustment, differential by GDN
 - Spread using goalseek such that the most sparse GDN received the maximum assessed amount
 - Applied to GDN reported and BP projections of Repair & Emergency labour costs

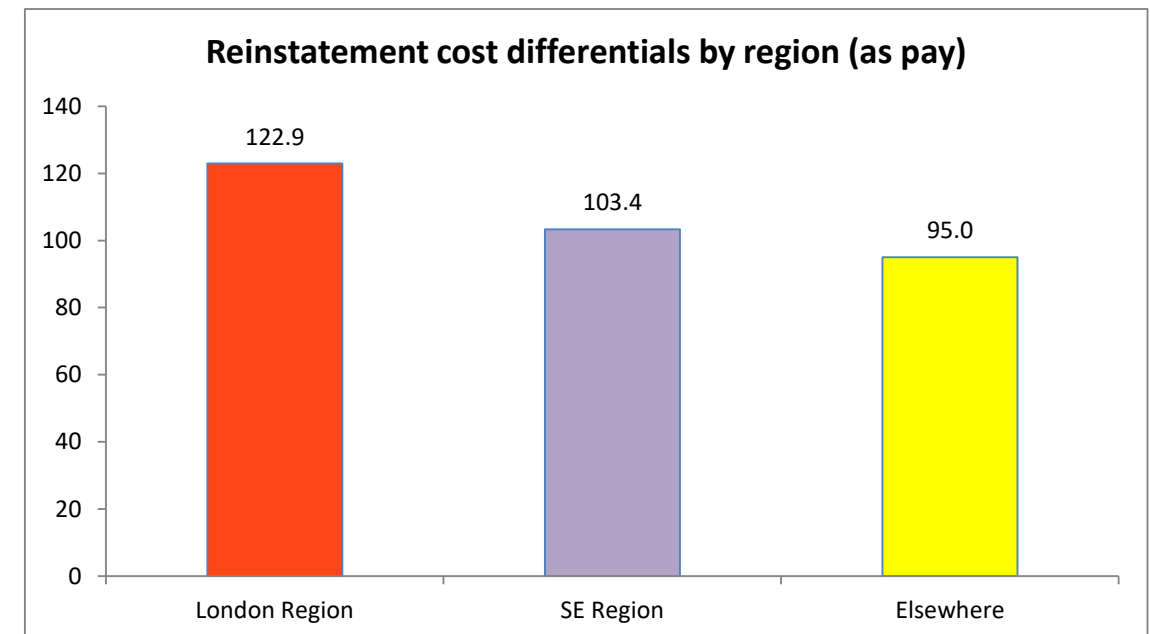
Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independents	Sc	N/A



How RFs were determined and applied at RIIO-GD1 - reinstatement

- Calculated using
 - A report by an SGN contractor showing additional repex productivity and reinstatement related costs of between 15% and 20% for working in London
 - Ofgem selected 15%
- Detailed application
 - To reinstatement costs within M25
 - Used Local Authority population data to divide Lo, So, EoE GDNs in and out of M25
 - Two way adjustment – specific upward for Lo, So, EoE (Tott'm), uniform downward for other GDNs
 - Applied to GDN reported and BP projections of reinstatement costs

Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independents	Sc	N/A



How RFs were determined and applied at RIIO-GD1 - Others

- Salt cavity specific to
 - NW for past and future rental costs
 - NGN for historic maintenance costs
- Scottish Independent Undertakings
 - GDN specific – calculated using data from Scotland GDN

Regional Factor	Applied to	Activity
Pay	All GDNs	All “local” activities
Urbanity	Lo, So, EoE - Tott'm	Repex, Connections, Reinforcement
Sparsity	All GDNs	Emergency, Repair
Reinstatement	All GDNs	Repair, Maintenance
Salt cavity	NGN, NW	Maintenance
Scottish Independents	Sc	N/A

Process for assessing Regional Factors – RIIO-GD1



Limited engagement and no feedback outside of Initial and Final Proposals

Potential RIIO-GD2 process for assessing Regional Factors

- CAWG meetings can be used as a forum to consider GDN Regional Factor claims
 - Already referred to in Terms of Reference “Assess the approach to and treatment of: (1) Regional factors and other adjustments”
 - Provides a 3 way process of engagement between Ofgem, the proposing GDN, and other GDNs
 - Allows a process of refinement, rather than “all or nothing” approach
 - Could include cost implications of different outputs between GDNs
 - Upshot can be used by GDNs in individual Customer Engagement processes and in the RIIO2 Challenge Group
- CAWG meetings already due monthly until April 2019 - can schedule at least two further meetings before Business Plan submission
- GDNs need to be free to make further claims in Business Plans, in case of new evidence

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Sector specific consultation	X				
Sector specific decision			X		
CAWG meetings	X X X	X X X	X X	X	
Customer engagement					
RIIO2 Challenge Group				X	
BP submission					X
	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19

What might be changed, added or removed for RII02

- Important for there to be a robust process for discussion and development of Regional Factors from RII0-GD1, and considering claims for new ones from GDNs for GD2
- Rather than speculating now about what changes might result, better to let the process take its course