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# Business Support Consistency

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# Business Support Consistency

It has been raised in a number of CAWG meetings that there are organisational, allocation and capitalisation structural differences between GDNs that give rise to inconsistencies. Some of this is over the detailed level categorisation (ie RIGs definition is open to interpretation) and work on these areas in hand, however on Business Support and Work Management there are potentially material impacts.

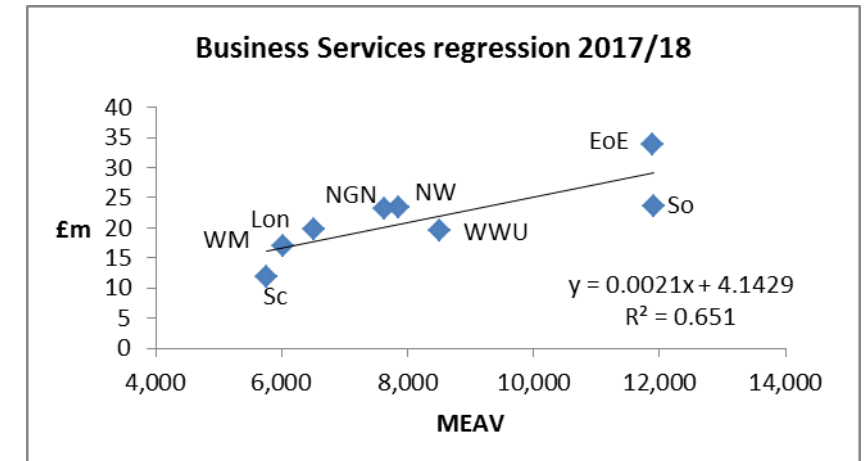
2017/18 RRP, Table 3.1, provides both net salaries (incl. pensions & NI) costs and FTEs by opex cost category, some of the implied £ per FTE are too low and this may be due to significant capitalisation, these include:

Asset Mgmt :	NGN	£9k per fte
	Sc	£13k per fte
	So	£22k per fte
IT & Telecoms	NGN	£15k per fte
Finance	Sc	£8k per fte
	So	£9k per fte

# Cost Assessment Options

## 1. Regression on Opex

- Use size variable (MEAV) or a composite derived CSV (from functional drivers)
- This does not address the issues, the graphic illustrates company differences, so serious concern of UQ cherry-picked costs being too low.
- Bottom-Up UQ derivation from use of Average efficient costs, then apply UQ as done in ED1 will partially mitigate.



## 2. U/C weighting of functional drivers on opex

- Used in GD1, albeit on gross costs. It found GDN UQ = external Hackett UQ.
- The method does not account for fixed cost elements
- Does not overcome the issue of different outsourcing models impacting on level of Business Support costs.

## 3. Gross Costs, then adjust to Opex post UQ setting

- Using option 1): regression or 2) u/c approach
- Does not overcome the issue of different outsourcing models impacting level of Business Support costs.
- This is a one sided assessment, what about Business Support costs in other cost categories?

## Options (cont'd)

### 4. Gross, with capitalised costs out of other cost categories

- Using option 1: regression or 2) u/c approach
- Normalise costs, by removing from other cost categories
- Expected to improve Bottom-Up model fits overall
- Does not overcome the issue of different outsourcing models impacting on level of Business Support costs.

### 5. Fully Loaded costs

- Alternative to option 4, apportion all Business Support costs out to other cost categories
- Reduces number of models
- Significant risk that introducing a new allocation method to GDNs, with their different structures, may in itself lead to different inconsistencies and thus invalid UQ assessment

### 6. Expert Review

- Used in GD1 and ED1 for some cost categories, eg for IS (totex IS previously raised as an issue)

Note: Whichever option decided upon, the Bottom-Up UQ derivation should change from that used in GD1 to use summation of average efficient costs, then apply UQ, as applied in ED1.

# Conclusions

- a) UQ derivation needs to be changed inline with ED1
- b) Gross will help overcome some of the inconsistencies
- c) Should exclude Business Support costs from other activities, when they are regressed
- d) Use regression as accounts for semi fixed nature of costs
- e) Certain activities, such as IS, subject to external review

(combination of options 4 with regression and 6)