Materials presented at the meetings are for the purpose of stimulating discussion only and do not represent the views of Ofgem, individual gas networks or the group as a whole

Northern Gas Networks

we are the network

RIIO GD2 CAWG 8 – 11 April 2019

Cost Drivers for Work Management, Other Capex breakout

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Totex Regression

Support balanced approach between top down and bottom up

- Top-Down represented overall Totex
- Still excluded some Expert Review items – seems logical, items were GDN specific or outside our control – xoserve, smart, streetworks, land remediation, holders
- Bottom-Up granularity enabled cost drivers and regional factors to be understood
- Review of 50/50 weighting may be appropriate dependant on robustness of different approaches

RRP Activity	RIIO-GD1 analysis split	2016/17 Totex %		Bottom Up approach	In Totex regression
Opex					
Emergency work ex'n	Other	4.7%		Regression	Yes
	SMART meter costs	0.1%		Expert review	
Repair work ex'n	Other	5.9%		Regression	Yes
	Streetworks	0.4%		Expert review	
Maintenance work ex'n	Other	6.3%		Regression	Yes
	MOBs surveys	0.1%		Expert review	
Scottish Independents		0.4%		Expert review	
Work Management	Other	7.6%		Regression	Yes
	Land remediation	0.3%		Expert review	
	Holder demolition	0.3%		Expert review	
	Streetworks	0.4%		Expert review	
	SMART meter costs	0.1%		Expert review	
Other Direct Activities	Other	1.1%		Expert review	Yes
	Xoserve	1.3%		Expert review	
Business Support	Training & Apprentices	1.8%		Expert review	
	Other	9.5%	40.3%	Expert review	Yes
Repex	Mains & Services repex	38.2%		Regression	Yes
	MOBs replacement	1.3%		Expert review	
	Sub-deducts	0.0%		Expert review	
	Streetworks	0.8%	40.4%	Expert review	

RRP Activity	RIIO-GD1 analysis split	2016/17 Totex %		Bottom Up approach	In Totex regression
Capex					
LTS, Storage & entry	LTS & Storage	4.6%		Expert review	Yes
Connections	Connections - other	4.4%		Regression	Yes
	Connections - Fuel Poor	1.1%		Expert review	
	Streetworks	0.2%		Expert review	
Reinforcement	Mains	0.8%		Regression	Yes
	Growth governors	0.1%		Expert review	Yes
Governor replacement	Governor replacement	0.8%		Expert review	Yes
Other capex	IT capex	1.9%		Expert review	Yes
	Vehicles capex	1.1%		Expert review	Yes
	Xoserve	0.8%		Expert review	
	Physical Security (PSUP)	0.8%		Expert review	Yes
	Other	2.4%	19.0%	Expert review	Yes
Controllable Totex		98%			
Shrinkage opex		1.8%	1.8%	Expert review	Yes
Totex		100%			
	Totex covered by regression			67%	91%
	Totex covered Expert review			33%	9%
				100%	100%

Totex Regression covers around 90% of spend - only 2/3 regression coverage in the Bottom Up analysis

- All drivers will need to be reviewed and updating to reflect Bottom Up reviews
- The weightings for the drivers should be updated for RIIO-GD2 industry spends – RII0-1 initially looked to modelling to identify 'best fit' weightings – gave unreasonable results