

# RIIO-GD2 Cost Assessment Working Group

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## Terms of Reference v.2

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These are the Terms of Reference (ToRs) for the RIIO-GD2 Cost Assessment Working Group. These ToRs will be updated from time to time.

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## 1. Purpose and scope

### Purpose

- 1.1 The RIIO-GD2 price control will run from 1 April 2021 to 31 March 2026.
- 1.2 The purpose of the RIIO-GD2 Cost Assessment Working Group (the 'Group') is to help inform the development of the cost assessment toolkit which will be used to derive cost allowances for the RIIO-GD2 price control.
- 1.3 The Group will meet regularly in the run-up to Ofgem's RIIO-GD2 sector methodology sector consultation in December 2018, sector methodology decision in May 2019, and tools for cost assessment consultation in June 2019. Following this, the Group will meet when necessary to further discuss aspects of the RIIO-GD2 cost assessment toolkit.
- 1.4 The Group will interact closely with and complement the gas distribution ('GD') policy stakeholder engagement groups, specifically:
  - i) The Customer and Social Stakeholder Engagement Group
  - ii) The Decarbonisation Stakeholder Engagement Group
  - iii) The Asset Management Stakeholder Engagement Group
- 1.5 It is not a substitute for wider stakeholder engagement and consultation.

### Scope

- 1.6 The Group will focus on informing the development of the final cost assessment toolkit to be used in RIIO-GD2.
- 1.7 The Group will evaluate current approaches to cost assessment in the GD price control to date, RIIO-GD1. In doing so, it will:
  - i) Assess the approach used for cost assessment in RIIO-GD1 and determine which areas of the cost assessment methodology work effectively and which areas may need to be revised.
  - ii) Consider the options available for undertaking alternative approaches to cost assessment.
  - iii) Consider options for developing and refining totex benchmarking.
  - iv) Consider options for developing and refining benchmarking for:
    - (1) Opex
    - (2) Capex
    - (3) Repex
  - v) Consider options for developing and refining benchmarking for appropriately disaggregated levels of costs.
  - vi) Assess the approach to and treatment of:
    - (1) Regional factors and other adjustments
    - (2) Real price effects

- (3) Ongoing efficiencies
  - (4) Pension costs
  - (5) Innovative solutions
  - vii) Identify appropriate cost drivers.
  - viii) Identify appropriate cost categories and levels of modelling.
  - ix) Identify and rectify any issues with data consistency across companies in advance of business plans.
  - x) Consider the use of network asset health measures.
  - xi) Identify material uncertainties and develop uncertainty mechanisms.
  - xii) Discuss principles for identifying and using a toolkit of cost assessment approaches.
  - xiii) Consider how a toolkit can accommodate proportionate treatment of business plans.
  - xiv) Discuss the form, content and expected level of justification for cost information within the business plan submissions.
- 1.8 *For the avoidance of doubt, the Group is an advisory body and not a decision-making body. As such, Ofgem will consider views raised by the Group but is under no obligation to accept them.*
- 1.9 The Group will focus on issues specific to the RIIO GD price control. In doing so, the Group will work closely with:
- the RIIO-2 Challenge Group;
  - other stakeholder engagement groups, for example the RIIO Gas Distribution Policy Stakeholder Engagement groups and working groups in other sectors; and
  - any cross-sector working groups and/ or workshops Ofgem establishes in the future to discuss issues relevant across all sectors (e.g. output categories, innovation etc.).
- 1.10 For further information, please visit Ofgem's website.

## 2. Membership

### Membership

- 2.1 Members of the Group will comprise:
- Ofgem chair (Chris Brown - Head of RIIO Gas Distribution Cost Assessment)
  - Ofgem staff (primarily from the Gas Distribution Cost Assessment team)
  - Representatives of the Gas Distribution Network (GDN) companies (maximum two per meeting)
  - Representatives from other interested parties, included but not limited to consumer bodies, environmental bodies and customers.

2.2 Membership is currently as follows:

Ofgem	Northern Gas Networks	Scotia Gas Networks
Cadent	Wales & West Utilities	

- 2.3 Where appropriate, the Group may invite internal or external experts to specific meetings and seek advice from these parties outside of the meetings.
- 2.4 Ofgem welcomes expressions of interest from stakeholders interested in joining the Group. However, given the nature of the Group and in order to facilitate detailed discussions on the design of cost assessment, Ofgem will restrict membership to the Group.
- 2.5 Stakeholder engagement is central to the RIIO framework and Ofgem encourages stakeholders to get involved in RIIO-GD2 through:
- Ofgem consultation processes and workshops; and
  - Network operator stakeholder engagement.
- 2.6 For further information, please visit Ofgem's website.

### 3. Meetings

- 3.1 Meetings will be organised by Ofgem and will be held at Ofgem offices in London and/ or Glasgow unless otherwise specified. Teleconferencing facilities will be available upon request.
- 3.2 Materials presented at the meetings are for the purpose of stimulating discussion only. As such, materials presented do not the views of Ofgem/ the Gas and Electricity Markets Authority (GEMA). Where possible, materials will be made available on Ofgem's website.
- 3.3 Members are actively encouraged to bring forward ideas and/ or research to assist the Group.
- 3.4 In order to facilitate open and constructive debate, meetings will be held under Chatham House Rule. A summary of discussions will be made available on Ofgem's website.
- 3.5 While consensus may be welcome in some areas, it is not the aim of the Group. In fact, different views, with improved understanding of the reasons for those views and the evidence base that might help guide final decisions, may be equally as useful.

### 4. Forward work programme

- 4.1 The Group's draft forward work programme is as follows:

Date	Location	Venue
24 July 2019	Glasgow	Commonwealth House, Albion Street
TBC – See Ofgem’s website for updates.		

- 4.2 After the publication of the RIIO-2 tools for cost assessment consultation, and the submission of company draft business plans, meetings with the Group will be arranged where necessary to further discuss aspects of the cost assessment toolkit. In these meetings, the contents of the draft business plans will not be discussed by the Group as they contain confidential and commercially sensitive information. Any analysis presented by Ofgem at the Group will not contain RIIO-GD2 forecasts from the draft business plan data templates.