

## **Gas to the West Application Information Pack:**

### **Annex 7 High Pressure Workbook notes**

#### **General**

1. These notes should be read by those completing the data input workbook as part of their application for a gas conveyance licence relating to the high pressure pipeline system in the area of the network extension.
2. This data input workbook is for the purpose of calculating the Applicant Determined Cost aspect of the Best Value criterion set out in DETI's published criteria. See in particular sections 3.11 – 3.16.
3. All data should be supplied on the basis of April 2014 prices this includes capital, operating and financing costs.
4. All cost data should be expressed in £m and to three decimal places only.
5. Applicants should input for each year a full 12 months of cost data
6. In the workbook only certain cost information is to be input by the applicant with other cost data hardwired into the workbook which cannot be changed by the applicant. The reason for including or excluding particular costs from the licence application process is explained in the Conclusions Paper under the discussion of responses to question 9.

## High Pressure Workbook Notes

Cost Category	Notes to Applicants
<p><b>1. Controllable Capital Expenditure:</b></p> <ul style="list-style-type: none"> <li>• Materials</li> <li>• Construction</li> <li>• Wayleaves &amp; Land Acquisition</li> <li>• Design</li> <li>• Project Management</li> <li>• Site Investigation / C&amp;I /Commissioning Contingency</li> </ul>	<p>Only cells relating to <b>Design and Project Management</b> and <b>Contingency</b> need to be input by the applicant. Data in relation to the following costs are hardwired into the workbook and are not required to be input by the applicant.</p> <ul style="list-style-type: none"> <li>• Materials</li> <li>• Construction Costs</li> <li>• Wayleaves &amp; Land Acquisition</li> <li>• Site Investigation / C&amp;I / Commissioning</li> </ul> <p>A detailed explanation of each of the cost lines not competed on in this category is provided below in table 1.</p> <p><b>Engineering design &amp; Project Management explanation:</b> costs such as consultancy fees, project office costs and other internal costs related to design and project management.</p> <p><b>Contingency costs explanation:</b> There are risks which the licence holder shares with the construction contractor. The licence holder and its contractor will be expected to share risk in a way that minimises the cost of risk overall, this being achieved by allocating risk to the party which is best able to effectively manage that risk. Applicants in requesting an allowance for those risks which they are willing to accept rather than passing them to their contractor should explain in their Operational Business Plan how their proposed allocation reduces the cost of risk overall. Applicants should base their submission on the New Engineering Contract Three framework which is a suite of contracts intended to both work together and provide a range of different options for procuring work depending on the risk appetite of the client. There are six main options as set out below. The Contractor carries the greatest risk under options A and B, and least risk under options E and F.</p> <ul style="list-style-type: none"> <li>• Option A: Lump Sum priced contract with activity schedule</li> <li>• Option B: Remeasurement priced contract with bill of quantities</li> <li>• Option C: Target Cost contract with activity schedule</li> <li>• Option D: Target Cost contract with bill of quantities</li> <li>• Option E: Cost Reimbursable contract</li> <li>• Option F: Management Contract</li> </ul> <p>Applicants should base their contingency request on the basis of an Option C type of arrangement. In setting construction costs in the VFCE we intend to base this on best industry practice in relation to option C.</p> <p>Applicants must base their submissions on the network design produced by Fingleton McAdam. Applicants should not amend the design but rather base their cost estimates on the provision of a network as set out</p>

## High Pressure Workbook Notes

Cost Category	Notes to Applicants
<p><b>2. Uncontrollable Capital Expenditure:</b></p> <ul style="list-style-type: none"><li>• Construction</li><li>• Archaeology</li><li>• Planning Conditions</li><li>• Stock Up Gas</li></ul>	<p>These data are hardwired into the workbook and are not required to be input by the applicant.</p> <p><b>An explanation of each of the cost categories is provided below.</b></p> <p><b>Stock Up Gas:</b> is the quantity of gas required to complete the high pressure pipeline system commissioning process; comprising gas associated with purging operations and then raising the pipeline operating pressure to the level required for normal operation.</p> <p><b>Planning Conditions:</b> Planning conditions means any additional project specific requirements which may be placed on the applicant as a condition of the planning process.</p> <p><b>Archaeology:</b> Costs associated with construction archaeology</p>

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Cost Category	Notes to Applicants
<p><b>3. Opening Asset Value</b></p> <ul style="list-style-type: none"> <li>• Capital Expenditure</li> <li>• Executive Subvention</li> <li>• Capitalised Interest</li> <li>• Mobilisation</li> <li>• Other Costs</li> <li>• Pain Gain Mechanism</li> </ul>	<p><b>Costs relating to Other Costs and Mobilisation need to be input by the applicant. All other costs in this category are hardwired into the workbook.</b></p> <p><b>Mobilisation Costs means:</b></p> <p>Costs incurred after award of the license and in advance of the first operational commencement date, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Conveyance license agreement</li> <li>• Contractual arrangements with other parties including TSOs/DSOs (but excluding those relating to the design and construction of the pipeline)</li> <li>• Network code</li> <li>• Establishment of the necessary IT systems for the ongoing operation of the network</li> <li>• Associated overheads to deliver the above</li> </ul> <p><b>Other Costs means:</b></p> <ul style="list-style-type: none"> <li>• Other cost items which applicants may incur but are not recognized elsewhere. Any costs not highlighted in the application will be excluded from the setting of the allowances unless it can be demonstrated that these could not have been foreseen at the time the application was submitted. Applicants will need to set out in detail in the operational business plan what these costs, if any, relate to.</li> <li>• For example applicants should include the cost of any cash-buffer the business may need.</li> </ul>

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Cost Category	Notes to Applicants
	<ul style="list-style-type: none"> <li>For those Applicants making an application for an operating cost pass through form of control they should include the costs of establishing arrangements to protect consumers from inappropriate behavior. This has previously been achieved in other cases through the establishment of a Company Limited by Guarantee. However, we recognise that other company structures might deliver equivalent levels of assurance to consumers.</li> </ul> <p><b>Pain Gain Mechanism</b> – this is set at zero in the workbook</p>
<p><b>4. Finance Costs</b></p> <ul style="list-style-type: none"> <li>Weighted Average Cost of Capital</li> <li>Indexation</li> </ul>	<p><b>Weighted Average Cost of Capital (real)</b> – Applicants are required to indicate the (real pre-tax) rate of return they will require over 40 years to own and operate the pipeline system. For those applicants proposing an operating cost pass through model we propose to apply the risk adjustment factor by adding it to the pre-tax WACC in the workbook.</p> <p><b>Indexation</b> – for the purposes of the competition no inflation measure will be used to derive a nominal rate of return.</p>
<p><b>5. Controllable Operating Expenditure</b></p>	<p>No controllable operating costs need to be input by the applicant. However, Applicants will need to set out in detail in their Operational Business Plan how they will deliver the outputs required of a licence holder.</p>
<p><b>6. Uncontrollable Operating Expenditure</b></p> <ul style="list-style-type: none"> <li>Licence Fees</li> <li>Rates</li> </ul>	<p>No uncontrollable operating costs need to be input by the applicant.</p>

**Table1: High Pressure Capital Expenditure Cost Structure**

The Table below explains each of the controllable capital expenditure cost lines in more detail.

<b>Materials</b>	Linepipe & Bends Material/Weld Testing Pipe Storage & Site Lease AGI Materials MTO Design Third Party Inspection	
<b>Construction</b>	Fixed price scope Re-measurable work Schedule of day works	
	Defined provisional Sums	Additional works Commission pipelines with external parties Provision of site vehicles to Engineer Accommodation, amenity and restoration works Telephone calls by the Engineer Planting, environmental and landscape works
	Undefined Provisional Sums Pre-construction Archaeology Legal & Insurances	
<b>Wayleaves &amp; Land Acquisition</b>	Standard Wayleaves Development Wayleaves Necessary Wayleaves Public Bodies AGI Sites Cathodic Protection Wayleaves Crop Loss & Disturbance Payments Route Investigation DETI Oral Hearings Licence Holder Internal Costs	

	Agricultural Liaison Officers Public Relations	
<b>Site Investigations</b>	Aerial Photography Topographical Surveys Ground Investigations Noise & Emissions Studies Safety Evaluation Landowner Identification Aerial Video	
<b>SCADA + C &amp; I</b>	AGIs Pipeline SCADA C&I Design C&I Commissioning Others	
<b>Commissioning</b>	Gas & Initial Live Gas Operations Intelligent Pigging	