

Gas to the West Application Information Pack:

Annex 8 Low 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 low pressure 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. The mobilisation period starts with the award of the licence and runs until FOCD (First Operational Commencement Date). Year 1 to 10 in the workbook are each 12-months periods, with Year 1 starting with the FOCD.
6. In the workbook only certain cost information is to be input by the applicant with other cost data hardwired into the workbook which must not 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.
7. For the avoidance of doubt, all capex will be excluded for the purpose of this competition. Any capex elements that are normally allocated from opex to capex (e.g. engineer employees costs) will be deemed to have been included in capex already.
8. If resources are shared between this low pressure business and any other businesses, associated costs shall be apportioned accordingly.
9. It should be noted that the workbook notes consist of two parts:
 - Description of Cost Categories;
 - Definition of Operating Expenditure Components.

The Operating Expenditure Components have been structured into different levels with level one being the overall high level cost, and levels two and three breaking down this cost into more detailed cost elements, where appropriate.

Low Pressure workbook notes - Description of Cost Categories

Cost Category	Notes to Applicants
<p>1. Capital Expenditure:</p> <ul style="list-style-type: none"> • 4 bar Network • 75 mbar Network • Supply Point Connection • Engineering & Project Management • Lifecycle Costs 	<p>Capital expenditure costs are hardwired into the workbook and are not to be input by the applicant.</p> <p>Life cycle costs are costs relating to meter and meter battery replacement.</p>
<p>2. Domestic Connections Incentive</p>	<p>The domestic connections incentive estimate provides for an allowance of £425 per OO (owner occupier) connection, a figure that is subject to change in the future to reflect operational requirements and new arrangements such as an energy efficiency obligation. The aggregate allowance, hardcoded in the Capital Expenditure worksheet in the workbook has been calculated by multiplying this amount with the expected number of OO connections.</p> <p>As with our GD14 Determination¹, the domestic connections incentive is expected to cover for a sub-set of OO-related sales and connection costs, namely:</p> <ul style="list-style-type: none"> • Market Development and Advertising costs related to OO sales and connections. • Incentive payments to OO consumers. • Manpower costs for OO-related sales staff (incl. Directors). • Overhead costs apportioned to OO-related sales and connections should be assumed to be 15%. These overhead costs consist of relevant IT, Office, Insurance, Professional and Legal Fees and Miscellaneous costs.² <p>These costs must not be included in the opex data provided in the workbook.</p> <p>It should also be noted that the Domestic Connections Incentive is contained in the Capital Expenditure worksheet in the</p>

¹ http://www.uregni.gov.uk/publications/gd14_price_control_for_gas_distribution_networks_final_determination

² For a detailed explanation of these cost categories see table below.

Low Pressure workbook notes - Description of Cost Categories

Cost Category	Notes to Applicants
	workbook for convenience and, will be considered to be opex.
<p>3. WACC and NPV calculations</p> <ul style="list-style-type: none"> • Weighted Average Cost of Capital • Indexation 	<p>Weighted Average Cost of Capital (real) – Applicants are required to indicate the (real pre-tax) rate of return they will require to own and operate the distribution system during the first 10 years of the project.</p> <p>Applicants should use the goal seek function to set a distribution tariff which results in a zero closing balance in year 40 of the profile adjustment.</p> <p>Indexation – for the purposes of the competition no inflation measure will be used to derive a nominal rate of return, in the licence however inflation will need to be taken into account and we are assuming the Retail Prices Index as the measure of inflation.</p>
<p>4. Operating Expenditure</p> <ul style="list-style-type: none"> • Mobilisation Costs • Marketing, Advertising & PR for Non-OO Connections • Emergencies and Network Maintenance • Manpower • Office • Insurance • Professional & Legal Fees • Information Technology 	<p>Applicants are required to input their cost estimates for each cost category for the first ten years of the project.</p> <p>These cost estimates must not include any expenditure related to the Domestic Connections Incentive. However costs related to Marketing, Advertising and PR for Non-OO connections should be included.</p> <p>The cost estimates must also not include life cycle costs as these are set out in the workbook.</p> <p>Applicants will need to set out in detail in their Operational Business Plan how the cost estimates were derived and justify how they are sufficient to deliver the outputs required of a licence holder. In particular, applicants may set out in an Excel spreadsheet appended to the Operational Business Plan how costs are linked to measurable parameters such as number of connections or length of network. The table below explains each of the operating expenditure cost components breaking the costs down in detail.</p>

Low Pressure workbook notes - Description of Cost Categories

Cost Category	Notes to Applicants
<ul style="list-style-type: none">• Miscellaneous• Rates• Licence Fees	

Low Pressure Workbook Notes

Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
<p>Mobilisation Cost</p> <p>All opex incurred after award of the licence until FOCD. These costs may include e.g.</p> <ul style="list-style-type: none"> • Manpower costs; • Office costs; • Insurance costs; • Professional and Legal Fees; • Information Technology (IT); • Miscellaneous Costs. <p>It should be noted that all IT cost will be considered to be opex; there will be no allowance for capex IT.</p>		
<p>Marketing Advertising & PR for Non-OO Connections</p> <p>This comprises costs for the promotion of connections to non-OO customers (e.g. NIHE, Industrial and Commercial (I&C) customers, New Build developers).</p> <p>Related costs for the promotion of connections to OO customers are covered in the notes on the Domestic</p>	<p>Market Development and Advertising Costs</p> <p>Costs relating to market development for non-OO customers, e.g. for</p> <ul style="list-style-type: none"> • Market Research; • Marketing; • Advertising; • Public Relations; • Engagement with Key Stakeholders; • Any other relevant costs deemed necessary by the applicant. 	

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
Connections Incentive above.	<p>Incentives</p> <p>Costs used in assisting non-OO in converting from existing fuel source to natural gas.</p>	
<p>Emergencies and Network Maintenance</p> <p>Costs relating to:</p> <ul style="list-style-type: none"> • Emergencies; • Network Maintenance 	<p>Emergencies</p> <p>Costs relating to the:</p> <ul style="list-style-type: none"> • Operations of an Emergency Call Centre; • Provision of first response. 	<p>Emergency Call Centre</p> <p>Emergency call centres receive calls that require investigation by a first call operative and calls which can be generally categorised as general enquiries for which no further action is required.</p> <p>This comprises the variable and, where relevant, associated level of fixed costs for the provision of the emergency call centre services and the management of the incoming calls. The main driver for these costs should be the measure for the number of calls per 10,000 customers.</p> <hr/> <p>First Calls</p> <p>This covers the variable and, where relevant, associated level of fixed costs for the provision of a first call response service. The main driver for these costs will be the measure for the number of calls per 10,000 customers.</p>

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
	<p>Network Maintenance</p> <p>Costs relating to the:</p> <ul style="list-style-type: none"> • Management and provision of repair activities; • Management and provision of network maintenance services; • Material and equipment required for maintenance and repair. 	<p>Repairs</p> <p>Repair costs result from either gas escapes from main or service pipes due to joint problems (condition problems) or third party interference damage.</p> <p>This covers the variable and, where relevant, associated level of fixed costs for the provision of repairs services as well as for the required material and equipment.</p> <hr/> <p>Maintenance</p> <p>Maintenance activities are those direct activities which are necessary to keep the network in safe working order with the exception of those activities carried out by first call response and repair teams. In this context, the activities are broad and include disparate activities from repairing telemetry electronics to the maintenance of district pressure reduction equipment. (See Appendix 1-4 of GD14 for further details).</p> <p>This covers the variable and, where relevant, associated level of fixed costs for the provision of maintenance services as well as for the required material and equipment.</p>
<p>Manpower</p> <p>This covers:</p> <ul style="list-style-type: none"> • Salary Costs; • Bonus Costs; • Pensions Costs; • Employer National Insurance Contributions (NIC) including PAYE Settlement Agreement 		

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
<p>(PSA) and Class 1a NIC;</p> <ul style="list-style-type: none"> • Standby / Emergencies Callouts allowance; • Overtime; • Car Allowance; • Fleet Costs. <p>In addition to the overall costs, supplemental information may be provided on the breakdown into the different cost elements listed above and on the relevant drivers such as the estimated average number of FTE (Full-Time Equivalents). Both costs broken down into different cost elements, and FTE may be broken down by organisational structure, e.g.:</p> <ul style="list-style-type: none"> • Senior Management Team • Engineering / Commercial operations Team • Finance and Corporate Support Services • Staff used in Customer Connection process for Domestic / Non domestic connections <p>Manpower costs relating to domestic OO connections must not be included here. These are excluded from the allowable costs as they are deemed to be covered by the Domestic</p>		

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
Connections Incentive.		
<p>Office</p> <p>Costs relating to:</p> <ul style="list-style-type: none"> • The provision of the business premises; • Communications infrastructure and usage (with the exception of IT); • Stationary. <p>Costs covered under the Domestic Connections Incentive must not be included here.</p>	<p>Buildings</p> <p>Costs for provision and maintenance of the business premises, including e.g.:</p> <ul style="list-style-type: none"> • Costs for rental of business premises or depreciation on owned premises; • Fees for property agents; • Building maintenance, security and cleaning; • Heating and Light; • Any other relevant costs related to the provision of business premises deemed necessary by the applicant. <p>It should be noted that insurance related to business premises is covered elsewhere and must not be included here.</p> <p>Telephone, Postage and Stationary</p> <p>Costs related to provision and usage of communications infrastructure (excluding IT) and stationary, e.g.:</p> <ul style="list-style-type: none"> • Costs for provision, maintenance and usage of telephony, including relevant hardware, line rental costs and usage costs for both, landline and mobile devices; • Costs for the provision, maintenance 	

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
	<p>and usage of franking and mail stuffing/ sorting equipment as well as postage fees;</p> <ul style="list-style-type: none"> • Costs for the provision, maintenance and usage of any other communication equipment (other than IT); • Costs for stationary; • Any other relevant costs deemed necessary by the applicant. 	
<p>Insurance</p> <p>Costs relating to the management of the risks and claims, including where relevant:</p> <ul style="list-style-type: none"> • Insurance premiums and insurance premium tax; • Insurance contract negotiating and monitoring as well as processing of claims; • Insurance risk management; • Excess payments and payments relating to uninsured claims; • Cost of inhouse insurance team; • Broker fees; • Any other relevant insurance-related costs. <p>Costs covered under the Domestic</p>	<p>Business Insurance</p> <p>Costs for the management of risks that may occur during the normal course of business, e.g.:</p> <ul style="list-style-type: none"> • Insurance for gas networks; • Public Liability; • Business interruption insurance; • Employer’s liability insurance; • Any other insurance associated with running the business. <p>Information may be provided on the breakdown of the overall business insurance costs into the different insurance categories.</p> <p>Car Insurance</p> <p>This includes all costs associated with running a vehicle fleet including the type of cover taken and the number of vehicles in</p>	

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
<p>Connections Incentive must not be included here.</p>	<p>the fleet that will be covered</p> <p>Building and Contents Insurance</p> <p>Cost for the management of risks associated with the business premises and any other associated sites as specified, e.g.: building and contents.</p>	
<p>Professional and Legal Fees</p> <p>Costs relating to professional and legal services required for business operations and not covered by any of the other opex categories, e.g.:</p> <ul style="list-style-type: none"> • Consultancy Costs; • Legal Fees; • Audit and Accountancy Fees; • Fess relating to Rating Agencies; • Costs for non-executive Directors; • Any other relevant costs deemed necessary by the applicant. <p>Costs covered under the Domestic Connections Incentive must not be included here.</p>		

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Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
<p>Information Technology</p> <p>Costs related to the provision of the required information technology (IT), e.g.:</p> <ul style="list-style-type: none"> • IT hardware; • IT software, including software licences; • IT Networks and associated costs; • Maintenance Fees; • System Upgrades and Enhancements; • Help Desk and Support Services; • Management of Data Centres; • Any other relevant costs deemed necessary by the applicant. <p>Costs covered under the Domestic Connections Incentive must not be included here.</p> <p>It should be noted that all IT cost will be considered to be opex; there will be no allowance for capex IT.</p>		
<p>Miscellaneous</p> <p>This comprises opex that is not covered by any of the previous cost</p>		

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Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
<p>components. This may include:</p> <ul style="list-style-type: none"> • Recruitment and Training; • Travel and Subsistence; • Billing; • Own Use of Gas; • Other (any relevant costs deemed necessary by the applicant not covered by any other cost component). <p>It should be noted that for all cost items subsumed under “other” and explanation and justification should be provided.</p> <p>Costs covered under the Domestic Connections Incentive must not be included here.</p>		
<p>Rates</p> <p>This covers:</p> <ul style="list-style-type: none"> • Network Rates; • Office Rates. <p>Rates are hardcoded in the workbook and are not to be input by the applicant.</p>		
<p>Licence Fees</p> <p>Licence fees cover the licence fees for the natural gas conveyance</p>		

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Definition of Operating Expenditure Components

Level One (High Level) Cost Lines	Level Two Cost Lines	Level Three Cost Lines
licences for gas to the west. Licence fees are hardcoded in the workbook and are not to be input by the applicant.		