

Annex 9: Opex Backcasting Methodology

The reporting breakdown for the Opex Expenditure has been revised into 2013 and subsequent years into a consistent form for all Northern Ireland Licence holders. The basis for the new format is that using by Ofgem for GB GDN reporting.

In order to provide an indicative trend in costs for years 2010 to 2022, UR has undertaken a cost mapping exercise to restate the previous years' costs on an indicative basis.

This note sets out the steps and assumptions used in this mapping for the year 2012.

All figures have been inflated to a common price base of December 2014. The table below shows the reported Opex for 2012 restated at this price base, less one off CMA costs for this year.

Item	2012
Professional and Legal Fees	592,398
Licence Fee	485,897
Own use gas	18,951
Entertainment	40,976
Telephone & Postage	102,481
Stationery	48,000
Office Costs	384,708
Billing	70,295
Insurance	829,096
Manpower (As Reported)	4,383,616
Call Centre	583,306
Emergency	1,644,709
Maintenance	2,110,084
Human Resources	88,231
IT	261,192
Travel and Subsistence	71,351
Fleet Costs	263,815
Rates	1,052,095
Incentives	977,945
Advertising, Marketing and PR	842,954
Total	14,852,102

Table 1

The table below shows the reported 2013 costs in the revised format which shall be used as a benchmark for the mapping exercise. This has been created from the Opex Matrix in the 2013 cost reporting return.

Item	2013
Professional and Legal Fees (Part)	937,982
Licence Fees	126,766
Shrinkage (Including Own Use)	0
Entertainment	37,129
Stationery, Communications and Billing (Part)	326,892
Vehicles & Wheeled Plant (part insurance)	70,000
Transport & Plant (Other) (Part Insurance)	430,000
Materials (Part)	180,000
Professional and Legal Fees (Part Insurance)	60,000
Direct Manpower	4,672,194
Agency Manpower	135,848
Non Salary Costs (ex T&S)	163,341
Car Allowance	289,933
Contractor - Labour	2,212,002
Contractor - Material	0
Materials (Part)	1,953,839
Stationery, Communications and Billing (Part IT & Telecoms)	350,000
T&S	20,519
Staff Entertainment	14,884
Vehicles & Wheeled Plant	1,314
Transport & Plant (Other)	368,785
Rent & rates	472,107
Network Rates	904,993
MDR Allowance	2,042,021
Total	15,770,547

Table 2

The step to map the two breakdowns is to split out some of the 2012 reported cost items into further detail on the basis of broad assumptions based upon 2013 reported figures.

Manpower

The total 2012 reported manpower is split into the following headings based about the percentage split of these items in the 2013 figures.

Direct Manpower	3,892,773
Agency Manpower	113,185
Non Salary Costs (ex T&S)	136,092
Car Allowance	241,566
Total	4,383,616

Table 3

Travel & Subsistence

The total reported T&S is split into the following headings based about the percentage split of these items in the 2013 figures.

T&S	41,354
Staff Entertainment	29,997
Total	71,351

Table 4

Rent & Rates

The figures for rent and rates were adjusted by a broad assumption of office rent being £300,000 to bring the total rent and rates in 2012 to a similar figure to that reported in 2013. (The £300,00 being removed from reported office costs).

Rates	147,102
Network Rates	904,993
Rent	300,000
Total	1,352,095

Table 5

The above adjustments delivers the restated 2012 figures to those show on the table below

Professional and Legal Fees	592,398
Licence Fee	485,897
Own use gas	18,951
Entertainment	40,976
Telephone & Postage	102,481
Stationery	48,000
Office Costs (Part)	84,708
Billing	70,295
Insurance	829,096
Direct Manpower	3,892,773
Agency Manpower	113,185
Non Salary Costs (ex T&S)	136,092
Car Allowance	241,566
Call Centre	583,306
Emergency	1,644,709
Maintenance	2,110,084
Human Resources	88,231
IT	261,192
T&S	41,354
Staff Entertainment	29,997
Fleet Costs	263,815
Rates	147,102
Network Rates	904,993
Office Costs (Part for Rent)	300,000
Incentives	977,945
Advertising, Marketing and PR	842,954
Total	14,852,103

Table 6

Matrix Mapping

Having established the cost items in a similar format for both years a matrix is created of the cost items down the matrix (Manpower, Contractor, Material etc.) and the activity areas across the matrix (Asset Management, Operations Management, Emergency Call Centre etc.). It is not practical to show the full matrix in this note due to the number of Columns involved. However, the table below shows the full list of column headings.

Asset Management	
Operations Management	
Customer Management	Emergency Call Centre
	Other
System Control	
Emergency	
Metering	
PRE Repairs	
Maintenance	
IT & Telecoms	IT
	Telecomms
Property Mgt	
HR & non-ops training	Training
	HR
Audit, Finance & Regulation	Billing
	Non-Billing
Insurance	
Procurement	
CEO & group management	
Stores & Logistics	
Advert. & Market Dev.	Advert. & PR (OO)
	Market Dev (OO)
	Advert. & PR (Non-OO)
	Market Dev (Non-OO)
Non Controllable Costs	
Total	

Table 7

Having established this matrix (which has more breakdown than the matrix in the cost reporting template) a mapping of the figures established in each of the years is carried out either to specific cells within the matrix or to a row or column totals. Given the 2013 figures have been reported on the basis of this type of matrix in the reporting template the 2013 matrix can be populated accordingly. For 2012 specific cells are populated with figures where this is possible. The basis of the 2013 populate matrix is then used as the basis to pro-rata populate rows and columns in 2012 based upon the percentage splits of the row or column in 2013.

In populating the matrix assumptions are made as to how to distribute the total costs in order of application as difficult cells are populated.

Assumptions

In the outline above three assumptions have already been stated:

1. Assume Split between Direct Manpower, Agency Manpower, Non Salary Cost (Excluding T&S) and Car Allowance in same proportions as 2013
2. Assume T&S in 2012 includes some Staff Entertainment on same ratio as 2013
3. Assume Office Rent in 2013 is £300,000

The list of the remaining assumptions made is given below:

4. Assume Call Centre and Emergency costs in 2012 are all Contractor
5. Assume Maintenance Costs in 2012 are all Materials
6. Assume HR Costs in 2012 are all Materials
7. Assume IT Costs in 2012 are all Stationery, Communications & Billing
8. Assume Fleet Costs in 2012 are all Transport & Plant Other
9. Assume Network Rates in 2012 are the same as Network Rates in 2013
10. Assume Telephone & Postage, Other, Stationary in 2013 is split in the same proportions as 2012
11. Assume Telecoms Costs are 10% of IT & Telecoms in 2013
12. Assume All incentives are MDR for OO connections
13. Assume Billing Costs in 2013 are the same as 2012
14. Assume all Call Centre Costs Are Contractor
15. Assume the Rent and Rates split in 2013 is the same proportions as 2012
16. Assume the split between billing and non-billing is the same as the split for Stationery, Communications & Billing
17. Assume Training costs in both years are nil
18. Assume Metering Costs were reported in Maintenance for 2012

In order to aid the understanding the process described above a simplified example is given in Appendix 1.

The results of the mapping exercise are shown in the two tables below

The table below shows the activity breakdown of the Opex Matrix

	2,012	2,013
Asset Management	168,757	200,176
Operations Management	669,078	793,548
Customer Management	1,222,674	1,305,279
System Control	114,269	135,905
Emergency	1,750,063	1,794,383
Metering	995,550	918,676
PRE Repairs	11,706	14,234
Maintenance	1,231,594	1,170,817
IT & Telecoms	481,062	496,745
Property Mgt	1,521,277	1,768,576
HR & non-ops training	203,699	155,114
Audit, Finance & Regulation	881,111	1,217,059
Insurance	1,006,492	742,415
Procurement	66,270	78,289
CEO & group management	1,320,577	1,709,245
Stores & Logistics	14,516	43,953
Advert. & Market Dev. (OO)	2,446,732	2,804,090
Advert. & Market Dev. (non-OO)	241,825	295,277
Non Controllable Costs	504,848	126,766
Total	14,852,102	15,770,547

Table 8

The table below shows the category breakdown of the Opex Matrix.

	2,012	2,013
Direct Manpower	3,892,773	4,672,194
Agency Manpower	113,185	135,848
Contractor Costs	3,900,064	2,212,002
<i>Contractor - Labour</i>	<i>3,900,064</i>	<i>2,212,002</i>
<i>Contractor - Material</i>	<i>0</i>	<i>0</i>
Materials	2,198,315	2,133,839
Vehicles & Wheeled Plant	0	71,314
Transport & Plant (Other)	263,815	798,785
TMA (Streetworks)	0	0
Non Salary Costs (ex T&S)	136,092	163,341
Staff Entertainment	29,997	14,884
T&S	41,354	20,519
Car Allowance	241,566	289,933
Professional and Legal Fees	592,398	997,982
Rent & rates	447,102	472,107
Network Rates	904,993	904,993
Stationery, Communications and Billing	566,676	676,892
Entertainment	40,976	37,129
MDR Allowance	977,945	2,042,021
Income Received (-ve)	0	0
Total Controllable Costs	14,347,253	15,643,782
Shrinkage (Including Own Use)	18,951	0
Licence Fees	485,897	126,766
Bad debt	0	0
Other Non-Controllable:	0	0
Total Non-Controllable Costs	504,848	126,766
Total Net Opex	14,852,102	15,770,547

Table 9

Appendix 1

In order to simplify the explanation a reduced set of accounts have been used in a worked example.

In year 1 the Opex is reported in the old format

Year 1	
Staff Costs	59.0
Work Activities	80.0
IT	25.0
Stationary	18.0
Telephone & Postage	19.0
Billing	6.0
Professional	3.5
	210.5

In year 2 the Opex is reported in the new format

Year 2	Work Activities	IT & Telephone	Audit & Finance	HR	
Staff Costs	26.3	6.3	23.3	5.2	61.1
Contractor Costs	84.0	30.4	9.2	0.7	124.3
Stationery, Communications and Billing	3.1	1.0	22.8	7.1	34.1
	113.4	37.7	55.3	13.0	219.4

The first step is to devise an extended matrix which can be used to map between the two formats

Year		Work Activities	IT & Telephone		Audit & Finance		HR	
			IT	Telephone	Billing	Non Billing		
Staff Costs								
Contractor Costs								
Stationery, Communications and	Postage							
	Stationary							

The next step is to populate the new matrix with figures which can be directly mapped first [Dark Green Cells] the then make assumptions that are required to fill of the remaining cells in the current report year [Dark Brown Cells] The light brown cells shows figures which are calculated from the dark brown assumptions, and the light green cells show the summation cells.

Year 1		Work Activities	IT & Telephone		Audit & Finance		HR	
			IT	Telephone	Billing	Non Billing		
Staff Costs		25.4	4.8	1.3	15.4	7.2	5.0	59.0
Contractor Costs		80.0	25.0	6.7	6.0	2.8	0.7	121.2
Stationery, Communications and	Postage	1.1	0.3	0.1	5.6	2.6	2.6	12.3
	Stationary	1.6	0.4	0.1	8.2	3.8	3.8	18.0
		108.1	30.5	8.2	35.2	16.5	12.0	210.5
Year 2		Work Activities	IT & Telephone		Audit & Finance		HR	
			IT	Telephone	Billing	Non Billing		
Staff Costs		26.3	5.0	1.3	15.9	7.4	5.2	61.1
Contractor Costs		84.0	24.0	6.4	6.3	2.9	0.7	124.3
Stationery, Communications and	Postage	1.4	0.4	0.1	7.0	3.3	3.2	15.3
	Stationary	1.7	0.4	0.1	8.6	4.0	3.9	18.8
		113.4	29.7	8.0	37.7	17.6	13.0	219.4

From the above matrix the figures can be summarised back into the new reporting matrix

Year 1	Work Activities	IT & Telephone	Audit & Finance	HR	
Staff Costs	25.4	6.1	22.5	5.0	59.0
Contractor Costs	80.0	31.7	8.8	0.7	121.2
Stationery, Communications and Billing	2.8	0.9	20.3	6.3	30.3
	108.1	38.7	51.6	12.0	210.5
Year 2	Work Activities	IT & Telephone	Audit & Finance	HR	
Staff Costs	26.3	6.3	23.3	5.2	61.1
Contractor Costs	84.0	30.4	9.2	0.7	124.3
Stationery, Communications and Billing	3.1	1.0	22.8	7.1	34.1
	113.4	37.7	55.3	13.0	219.4