

BGE (NI) Ltd Price Control 2012-2017

Initial Proposals for consultation

19 April 2012

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1 INTRODUCTION

Introduction

- 1.1 This document outlines the Utility Regulator's proposed allowances for Operating and capital expenditure for the period of the next BGE (NI) Price Control, beginning 1st October 2012. This is the second consultation paper on the Price Control 2012–2017.
- 1.2 The Utility Regulator has been in discussions with BGE (NI) regarding their 2012-2017 Price Control with the two primary aims being:
- (i). To set the BGE (NI) Allowed operating expenditure for gas year 2012/13 and the following four gas years; and
 - (ii). Review BGE (NI)'s proposals on capital expenditure for gas year 2012/2013 and the following four gas years.
- 1.3 The consultation does not include proposals for the cost of capital. In September 2011 BGE (NI) provided the Utility Regulator with a submission on the appropriate cost of debt for the control period to commence on 1 October 2012. This submission is currently being reviewed along with the other components of cost of capital and we will consult on cost of capital separately.
- 1.4 This is an open consultation paper. We have not posed any specific questions in this paper. Instead we invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received by **5pm on Wednesday 13th June 2012** and should be addressed to:
- Linda Beirne**
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Belfast
BT1 6ED
Tel: 028 9031 6342
- E-mail: linda.beirne@uregni.gov.uk
- 1.5 Our preference would be for responses to be submitted by e-mail.
- 1.6 Individual respondents may ask for their responses in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be published.
- 1.7 As a public body and non-ministerial government department, we are bound by the Freedom of Information Act (FOIA) which came into full force and effect on 1 January 2005. According to the remit of FOIA, it is possible that certain recorded information contained in consultation responses can be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA – even if respondents ask us to treat responses as confidential. It is therefore important that respondents note these developments and in particular, when marking responses as confidential or asking to treat responses as confidential, should specify why they consider the information in question to be confidential.

- 1.8 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office and we will be happy to assist.

Timetable

- 1.9 The table below sets out our proposed timetable and process for putting in place the price control to commence on 1st October 2012.

Activity	Date
Consultation period	April – June 2012
Price Control – Determination	July 2012
Price Control – Operational	1 st October 2012

Consultation responses

- 1.10 We published an initial consultation in December 2011. This document outlined the Utility Regulator's process, timetable, and approach to the BGE(NI) Price Control, beginning 1st October 2012. Only one response was received and this was from the Consumer Council. Their response highlighted the need for the Utility Regulator to keep in mind that its' primary objective is to protect the interest of consumers. See section 2 on our statutory duties which guide the development of proposals for the price control.

2 APPROACH

Our Statutory Duties

- 2.1 The initial proposals for this price control have been guided by our statutory duties.
- 2.2 Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland. Our principal objective must also be pursued in a way that is consistent with the objectives defined in Article 40 of the Gas Directive, the most relevant of which – in the context of carrying out price controls – are promoting an efficient market, and protecting consumers.
- 2.3 In carrying out our gas functions, we are also required to further this principal objective in the best manner that we see fit whilst also having regard to a number of other considerations. The key relevant one being the need to ensure that licence holders are able to finance their licensed activities.
- 2.4 We therefore interpret our duties, in the context of carrying out price controls, as a mandate to secure the most cost efficient outcome for the consumer that also allows the company to continue financing its activities. This has been the overarching philosophy that has guided our approach to this price control.

Regulatory Principles

- 2.5 The principles underpinning the regulatory proposals herein are to ensure the revenues and resulting tariffs are:
- Sustainable;
 - Stable;
 - Transparent;
 - Predictable; and
 - Cost-reflective.
- 2.6 These are based on best practice regulation of natural monopolies. Our task essentially consists of creating a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its costs.

Duration

- 2.7 We received no responses to our December consultation on the issue of the duration of the price control. Consequently, we propose that this price control will last for five years, that is from 2012/2013 - 2016/2017.

Approach

- 2.8 We consulted on our approach in our Consultation dated 14th December 2011. We received no responses on the issue and consequently our approach to the review will take the form summarised below.
- We commissioned engineering consultants to give advice and make comment on the engineering aspects of the BGE(NI) expenditure submissions;
 - We asked our consultants to consider benchmark comparisons of BGE(NI)'s operating expenditure costs against the operating expenditure of other energy/utility companies where appropriate;
 - We used actual operating expenditure costs incurred by BGE(NI) as trend analysis for operating expenditure costs going forward;
 - We reviewed the capital expenditure forecasted by BGE(NI) and determined if all the proposed expenditure is capex; and
 - We considered the phasing of the capex and determined if all capex projects should be done during the lifetime of the price control.
- 2.9 We will also consider whether the concept of a rolling opex incentive, which allows a company to keep any savings for a fixed time period irrespective of when the saving has been made, would be appropriate for the BGE(NI) price control. Regulators in GB and elsewhere have introduced the concept of a rolling opex incentive which allows a company to keep any savings for a fixed time period irrespective of when the saving has been made. We will consider this further before our final determination is issued.

3 BGE (NI) PRICE CONTROL SUBMISSION

BGE (NI)'s operating expenditure submission

- 3.1 Our December 2011 consultation set out BGE (NI)'s proposals for their forecast annual operating expenditure for gas year 2012/13 and the following four years and these are reproduced below for ease of reference. Appendix 1 shows BGE (NI)'s actual costs for the periods 2007/08, 2008/09 and 2009/10 uplifted to April 2011 monies.
- 3.2 In December we asked respondents for comments on whether the scope of the controllable/uncontrollable opex is appropriate but received no comments. Our initial proposals on operating expenditure, including the scope of uncontrollable operating expenditure is set out in section 4 below.

Table 1 – Operating Expenditure Submission, £'000

Cost Item	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Maintenance	1,691	1,675	1,654	1,692	1,664
Training	5	5	5	5	5
Safety Campaign	138	108	108	108	108
Admin & Utilities	108	108	108	108	108
Grid Control	248	249	250	250	251
Asset Management	64	64	64	65	65
Detailed Design	25	25	25	25	25
Scheduling & Dispatch	60	61	62	63	64
HSQE	5	5	5	5	5
Wayleaves	13	14	15	16	16
Transportation Services	300	302	305	306	302
Consultancy/Legal	20	20	20	20	20
ALO & Agricultural Remedials	200	175	150	150	100
Insurance	262	262	288	288	288
IT	223	257	306	322	301
Secretariat	105	103	102	102	103
Finance	129	131	133	134	135
HR	48	48	49	49	49
Facilities	111	112	112	111	113
Group recharge	104	104	104	104	104
Total Direct	3,860	3,828	3,864	3,923	3,826
Uncontrollable Opex - Projects	6,251*	TBC	TBC	TBC	TBC
Non Routine Development	TBC	TBC	TBC	TBC	TBC
Innovations	80	80	80	80	80
Other Pass Through Costs					
Rates	425	432	440	464	487
UR Licence Fee	390	390	390	390	390
CER Licence Fee	TBC	TBC	TBC	TBC	TBC
PSA Admin Fees	-	-	30	-	-
Total Pass Through Costs	7,146	902	940	934	957
Opex Total	11,005	4,730	4,804	4,857	4,783
*Costs relating to CAG, IME 3					

Source: BGE (NI)

BGE (NI)'s capital expenditure submission

- 3.3 As set out in the December consultation, BGE (NI) have proposed a number of projects, to be undertaken during the price control period, which they believe would incur capital expenditure (see table 2 below). The price control review will therefore determine, in accordance with condition 2.2.2 of the licence, the efficient level of capex expenditure (if any) in relation to these that BGE (NI) may incur during the control period.
- 3.4 We received no responses on our approach to reviewing BGE(NI)'s capital expenditure proposals. Our initial proposals on capital expenditure are set out in section 4 below.

Table 2 – Capital Expenditure Submission, £'000

Cost Item	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Carrickfergus Automation	-	250	750	450	-
Carrickfergus C&I Refurbishment	163	163	-	-	-
Coolkeeragh Controls Update	200	200	300	-	-
Coolkeeragh C&I refurbishment	-	165	-	-	-
AGI Security System Upgrades	185	185	175	65	65
Transmission Marker Posts	450	150	-	-	-
Pipeline Remediation Works	100	200	-	-	-
Code Compliance	100	100	100	100	100
Online Inspection NW Pipeline	-	-	-	588	-
Remote Activation of Line Valves	-	-	50	50	-
C&I AGI Refurbishment	64	64	64	64	64
Cathodic Protection	36	36	36	36	36
Total Proposed Works Costs	1,298	1,513	1,475	1,353	265
CAG Phase 1	TBC	TBC	TBC	TBC	TBC
CAG Phase 2	TBC	TBC	TBC	TBC	TBC
Project 3	TBC	TBC	TBC	TBC	TBC
IT	300	300	300	300	300
Interim Capex Total	1,598	1,813	1,775	1,653	565

Source: BGE (NI)

4 UR PROPOSED ALLOWANCE

Our proposed allowance - Opex

Table 3 – Controllable and Uncontrollable Opex Summary, £k

Cost Item	Total 2012/13 -2016/17			
	BGE Submission	UR Proposed Allowance	Difference	% Difference
Maintenance	8,377	8,116	-261	-3%
Training	25	25	-	0%
Safety Campaign	570	430	-140	-25%
Admin & Utilities	540	540	-	0%
Grid Control	1,248	1,248	-	0%
Asset Management	322	-	-322	-100%
Detailed Design	125	-	-125	-100%
Scheduling & Dispatch	309	-	-309	-100%
HSQE	26	-	-26	-100%
Wayleaves	73	-	-73	-100%
Transportation Services	1,514	766	-748	-49%
Consultancy/Legal	100	100	-	0%
ALO & Agricultural Remedials	775	775	-	0%
Insurance	1,388	975	-413	-30%
Shared Services	-	1,340	1,340	-
IT	1,408	-	-1,408	-100%
Secretariat	515	-	-515	-100%
Finance	662	-	-662	-100%
HR	243	-	-243	-100%
Facilities	559	-	-559	-100%
Group recharge	522	-	-552	-100%
Total Direct	19,301	14,315	-4,985	-26%
Uncontrollable Opex - Projects	6,251*	-	-6,251	-100%
Non Routine Development	500	-	-500	-100%
Innovations	400	-	-400	-100%
Other Pass Through Costs				-
Rates	2,248	2,248	-	0%
UR Licence Fee	1,950	1,950	-	0%
CER Licence Fee	-	-	-	0%
PSA Admin Fees	30	30	-	0%
Total Pass Through Costs	11,379	4,228	-7,151	-63%
OPEX TOTAL	30,678	18,543	-12,135	-40%

*Costs relating to CAG, Project 3

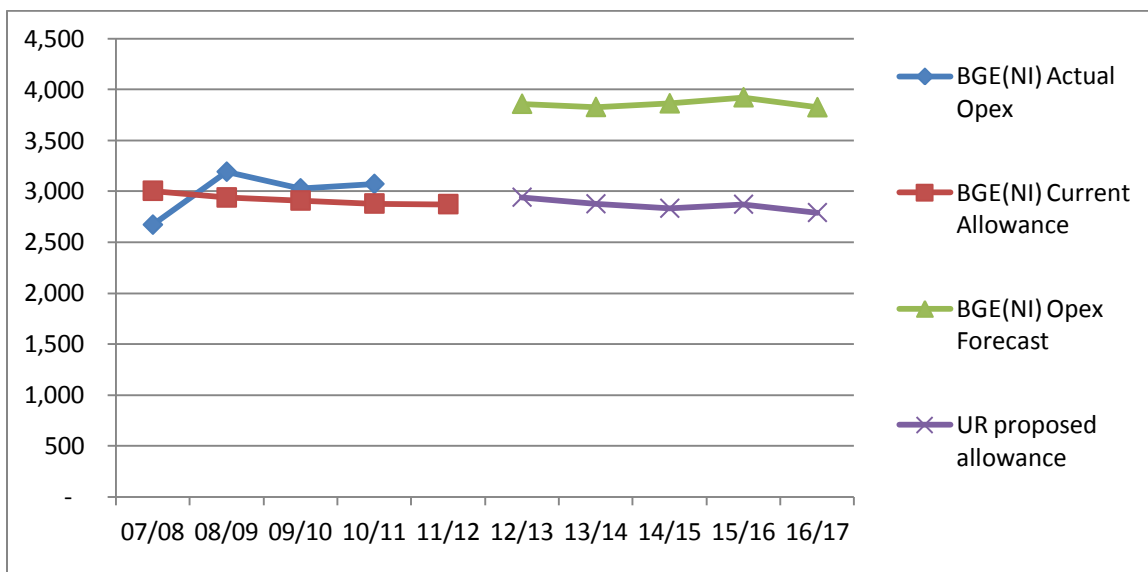
Source: BGE(NI) and the Utility Regulator

Controllable operating expenditure

- 4.1 The above table shows a number of costs lines in which we propose to accept or reduce marginally BGE(NI)'s proposals (see appendix 2 for five year profile of costs).
- 4.2 The maintenance cost line was reduced by 3% from the allowance proposed by BGE(NI). This reduction relates to the Rol section of the SN pipeline. We considered the proposed allowance was high in comparison to actual 2009/10 costs therefore we are proposing to reduce the allowance to align with actual. We also compared the forecast cost per kilometer for maintenance charges on the NI portion of the BGE(NI) network against the Rol portion. This high level comparison indicates that the Rol network costs is higher than the cost for the NI network, providing further justification for a reduction in the forecast cost.
- 4.3 Our consultants also suggested that there may be potential cost benefit from inclusion of the pipeline system south of the border in the SGN MERC arrangements and BGE(NI) could consider and evaluate if this was an opportunity to make efficiencies.
- 4.4 The safety campaign cost line relates to support and exhibits in relation to 'dial before you dig' as well as UKOPA subscription, Emergency exercises and pipeline integrity work. We considered the forecast costs on this cost line as high compared to actual averages for the three years 07/08, 08/09, 09/10. Therefore, we have proposed to align the allowance with the previous decision. Under the safety campaign cost line there are two further categories. These are CIPS and PSSR/WSOE. We are proposing to accept BGE(NI) forecast on CIPS and PSSR/WSOE.
- 4.5 There are four 'new cost' lines which we do not consider BGE(NI) have justified their inclusion therefore we propose not to allow these lines. These lines are asset management, detailed design, scheduling & dispatch and HSQE. Given that BGE(NI)'s infrastructure has not materially changed since the last price control period we would have assumed that BGE(NI) had factored in these costs when they accepted our previous determination.
- 4.6 Wayleaves management was previously reported under shared services. We are proposing not to allow this cost line and as with the previous price control period the allowance will be included in shared services.
- 4.7 The transportation services proposed submission includes £750k for an NI affairs manager which is a dedicated senior manager resource to manage the NI affairs. We consider that BGE(NI) should already have a dedicated resource for managing the NI affairs and therefore we propose not to allow this cost as we consider that BGE(NI) do not need an additional allowance for this role. We propose to allow the remaining transportation services forecast.
- 4.8 The ALO & agricultural remedials cost line covers the cost of reinstating the lands on the pipeline route. The forecast costs for the price control period is substantially higher than anticipated and actual costs appear to be decreasing. We are proposing to allow BGE(NI)s forecast costs however we will further consider these costs when reviewing the actual costs for 10/11.
- 4.9 BGE(NI)'s proposals for insurance were considered high compared to actual costs incurred in the three years 07/08, 08/09 and 09/10. Therefore, we propose to reduce insurance costs to £195k.

- 4.10 The six cost lines (IT, secretariat, finance, HR, facilities and group recharge) were previously grouped under shared services albeit HR and facilities had a small allowance. Some of the detailed breakdown of the six cost lines above has changed and cost lines have been reclassified (e.g. GTMS and network finance were previously grouped under transportation services and are now reported under IT and finance respectively. C&I leased lines were classified under admin and utilities and are now classified under IT and maps costs were classified under maintenance and are now under IT). BGE(NI) have indicated that BGE has undergone internal restructuring and will undergo further restructuring in order to comply with the Third Directive which will result in an increased cost to shared services. The average costs per annum proposed for these six cost lines is £780k. This is substantially greater than the £268k allowed under shared services in the previous price control and considerably higher than the actual costs incurred over the three years 07/08, 08/09, 09/10. We don't consider that BGE(NI) have justified the increase in the shared service allowance therefore we are proposing to roll over the allowance of £268k per annum.
- 4.11 The opex allowance for this price control has been complicated by the fact that BGE(NI) has changed the way it reports its costs to UR following an internal review. BGE(NI) has done this with no prior discussion with UR despite the fact that a specific cost reporting template has been used throughout the current review period. Consequently, we will consider options for putting in place a cost reporting format and a basis for apportioning costs which cannot be changed without consent. A licence modification as part of this price control review will be considered as an option.

Graph 1 – Controllable opex, £k



Source: BGE(NI) and the Utility Regulator

Uncontrollable operating expenditure

- 4.12 Table 3 shows a substantial forecast for uncontrollable opex specifically relating to one line - uncontrollable opex projects (see appendix 2 for five year profile of costs). The forecast for £6.251m relates to CAG (£3.13m) and IME 3 (£3.121m). We are proposing not to allow the CAG spend as the timing of the CAG project remains uncertain. We do not propose to allow costs associated with IME3 restructuring.
- 4.13 BGE(NI) have proposed costs of £80k per annum to develop innovation projects. They have yet to determine the projects and their associated benefits. Consequently, at this stage UR do not see how the innovation spend will deliver benefits to customers and therefore we do not accept the proposals.
- 4.14 Certain BGE(NI) operating expenditure costs will be defined as uncontrollable as per condition 2.2.4 of the licence. We are currently reviewing appropriate items to be treated as uncontrollable. In line with the last price control review rates, licence fees and Postalisation System Administrator (PSA) fees will be defined as uncontrollable.
- 4.15 There will be non routine work required to be undertaken over the period of the price control in relation to CAG, implementation of Regulation 715/2009 requirements and code and IT changes associated with the implementation of European network codes. We propose to define these three areas as uncontrollable under the heading of non-routine development. Any other work not falling into the areas set out above as uncontrollable will need to be funded from the controllable operating expenditure allowance.
- 4.16 UR could give an allowance for work associated with CAG implementation, Regulation 715/2009 and EU network code to cover the duration of the price control. BGE(NI) would take the risk if this turned out to be insufficient and similarly would gain if outturn costs were less than forecast. However, due to the uncertain nature of the work, particularly in relation to EU network codes we do not believe that this would be a reasonable approach to take either for BGE(NI) or for customers. We will therefore need to consider some form of reopener confined to specific areas of uncontrollable operating expenditure. If such a reopener is triggered, e.g. in relation to EU code development work we would expect BGE(NI) to submit to UR their forecast costs for each element of work proposed and UR would consider each project on a case by case basis.
- 4.17 We are proposing to accept BGE(NI) proposals for rates, UR licence fees and PSA admin fee.
- 4.18 Before issuing a final decision on our proposals, we intend to consider the scope of uncontrollable costs further and whether a reopener is appropriate. Any consultation responses we receive on this issue will also be incorporated into our thinking.

Our proposed allowance - Capex

4.19 In the table below we set out our proposed allowances for capex (see appendix 2 for five year profile of costs).

Table 4 – Capex Summary, £k

Cost Item	Total 2012/13 -2016/17			
	BGE Submission	UR Proposed	Difference	% Difference
Carrickfergus Automation	1,450	-	-1,450	-100%
Carrickfergus C&I	326	-	-326	-100%
Coolkeeragh Controls Update	700	-	-700	-100%
Coolkeeragh C&I	165	-	-165	-100%
AGI Security System	674	-	-674	-100%
Transmission Marker Posts	600	-	-600	-100%
Pipeline Remediation Works	300	-	-300	-100%
Code Compliance (pipeline)	500	-	-500	-100%
Online Inspection NW Pipeline	588	411	-177	-30%
Remote Activation of Line	100	-	-100	-100%
C&I AGI Refurbishment	320	-	-320	-100%
Cathodic Protection	180	61	-119	-66%
Total Proposed Works	5,904	472	-5,431	-92%
CAG Phase 1	TBC	-	-	-
CAG Phase 2	TBC	-	-	-
Project 3	TBC	-	-	-
IT	1,500	-	-1,500	-100%
Interim Capex Total*	1,500	-	-1,500	-100%
Total	7,404	472	-6,131	-94%

Source: BGE(NI) and the Utility Regulator

4.20 We are proposing not to allow many of the capex items as BGE(NI) have not proven the necessity to incur the capex in the 12/13-16/17 price control period.

4.21 The submission appears to have been developed not from detailed project plans based on clear technical and operational requirements, but rather as broad conceptual estimates for requirements that may arise. Should BGE(NI) prove that specific projects are necessary and the benefits to consumers clear, the UR will consider each of the projects in turn and an appropriate allowance. Allowances could only be considered at the time when the functional requirements are clear, detailed design has been prepared and associated costs have been compiled.

4.22 It is also clear that BGE(NI) does not have a single replacement and refurbishment policy. BGE(NI) lacked a coherent approach to asset replacement and refurbishment and consequently we cannot justify the capex spend proposed by BGE(NI). A coherent replace and refurbishment policy would facilitate BGE(NI) in driving efficiencies in maintenance. We have taken this into consideration in settling the efficiency factor.

4.23 The capex items we propose to allow some spend are:

- **Online Inspection of NW pipeline** – expenditure necessary for the inspections of the NW pipeline in 2016; and
 - **Cathodic Protection** – expenditure necessary with general CP refurbishment.
- 4.24 We are proposing to allow necessary spend such as the online inspection (OLI) of the NW pipeline however we have not accepted BGE(NI)'s forecast costs for this (£588k) and instead we are proposing to reduce their allowance for this spend (£411k). The temporary filtration and cleaning & inspection estimate for the OLI was considered high and has been reduced and a contingency sum proposed by BGE(NI) was reduce to 10%.
- 4.25 There are two further cost lines which we require further information before we can decide whether to allow the expenditure or not. These cost lines are as follows:
- **Pipeline Remediation Works** – expenditure necessary to undertake investigations and works to mitigate risks to pipelines located in flood plains; and
 - **Code Compliance** (pipeline infringement mitigation) – expenditure necessary to monitor developments in the vicinity of the pipeline networks and undertake works to mitigate risks associated with proximity infringement and change in the population density.
- 4.26 The Carrickfergus Automation project requires modifications to the Carrickfergus AGI. The bi-directional flow functionality at this AGI can currently only be operated manually. To improve operational flexibility within the NI network, the proposal is to enhance the control system at Carrickfergus by automating the manual change over flow direction, configure the pressure control and add station heating. These modifications are dependent on the requirements of CAG and due to the timing of the CAG project remaining uncertain we propose that detailed cost estimates and proposals for the project be reviewed when the requirements are clear and that any allowance for this project is established at this time.
- 4.27 BGE(NI) have indicated that the communication and instrumentation equipment within the Carrickfergus station is aging and becoming obsolete and that the systems will need to be replaced. There is also the need for ancillary C&I modifications to accommodate reverse flow. As with the automation project we propose that detailed cost estimates and proposals for the project be reviewed when the requirements are clear and there is further clarity on the CAG project.
- 4.28 BGE(NI) have indicated that proposed changes to the method of operating the Northern Ireland transmission system will necessitate changes to the pressure control system at Coolkeeragh. BGE(NI) has confirmed that any modifications to the Coolkeeragh AGI are entirely dependent on the requirement of CAG therefore we propose not to allow the cost until the requirement becomes clear.
- 4.29 Upgrade of the C&I equipment at Coolkeeragh AGI are justified by BGE(NI) on the basis of age and/or obsolescence. However, we propose that the update of C&I equipment is deferred pending clarification of the CAG project.
- 4.30 Two security related projects are grouped under the AGI security system upgrades. These projects relate to the AGI station security upgrades at three AGIs and AGI Access security on the South North AGIs. We propose not to allow the proposed projects and

costs related to them as BGE(NI) has failed to provide sufficient evidence that these measures are required by the Centre for the Protection of National Infrastructure (CPNI).

- 4.31 Regarding the Transmission marker posts, it appears that BGE(NI) will need to incur expenditure to ensure that the pipeline marker posts meet the required standards. However, we are of the opinion that the work should have been completed when the pipelines were constructed, and the costs covered at that time as part of the overall construction project and therefore we propose not to allow the costs proposed by BGE(NI).
- 4.32 The remote activation of the line valves project proposes to upgrade actuators to accommodate remote actuation of certain valves. BGE(NI) has indicated that the actuators on their valves are electrically operated whereas the NTS practice is to install pneumatic/hydraulic actuators to ensure that remote operation is still possible in the event of electrical supply failure when telemetry and control is maintained by battery back up. BGE(NI) have stated the justification for remote activation of line valves is based on security of supply. We do not consider that BGE(NI) has adequately justified the need for this expenditure therefore at this stage we are proposing not to allow the forecasted costs.
- 4.33 The C&I AGI refurbishment project involves the replacement of old and obsolete equipment such as remote terminal units at AGIs, site instrumentation, gas detectors, battery charges and generators. In addition, it is proposed to add a local SCADA graphical interface for use by field staff at AGIs. BGE(NI) has provided information on the policy for asset lives of the equipment which is claimed to be old and obsolete. It is considered that the equipment involved in this project would not have been installed prior to the period 2002-2004 and on this basis will still be within the expected life of the assets at the end of the control period. Therefore, we consider that the upgrades could be delayed into the next control period to reflect BGE(NI)'s asset replacement policy and do not propose to allow the costs proposed by BGE(NI).
- 4.34 Regarding the uncontrollable capex costs BGE(NI) have forecast £1.5m of expenditure required for a programme of investment across IT applications, data and information, infrastructure and organization. We consider that BGE(NI) failed to provide a detailed business cases to justify the expenditure in IT proposed. And therefore we propose not to allow this expenditure.
- 4.35 The capex costs we propose to allow would generally be classified as operating expenditure consequently, they will be reclassified as opex. The impact is shown in the table below.

Table 5– Controllable Opex including reclassification of Capex, £k

Cost Item	Total 2012/13 -2016/17			
	BGE Submission	UR Proposed	Difference	% Difference
Maintenance	8,377	8,116	-261	-3%
Training	25	25	-	0%
Safety Campaign	570	430	-140	-25%
Admin & Utilities	540	540	-	0%
Grid Control	1,248	1,248	-	0%
Asset Management	322	-	-322	-100%
Detailed Design	125	-	-125	-100%
Scheduling & Dispatch	309	-	-309	-100%
HSQE	25	-	-25	-100%
Wayleaves	73	-	-73	-100%
Transportation Services	1,514	766	-748	-49%
Consultancy/Legal	100	100	-	0%
ALO & Agricultural Remedials	775	775	-	0%
Insurance	1,388	975	-413	-30%
Shared services	-	1,340	1,340	-
IT	1,408	-	-1,408	-100%
Secretariat	515	-	-515	-100%
Finance	662	-	-662	-100%
HR	243	-	-243	-100%
Facilities	559	-	-559	-100%
Group recharge	522	-	-552	-100%
Total Controllable ex Capex	19,300	14,315	-4,985	-26%
Reclassification of Controllable Capex *		472		
Total Controllable inc Capex		14,787		

Source: BGE(NI) and the Utility Regulator

5 EFFICIENCY FACTOR

Efficiency Factor

- 5.1 As part of our review of BGE(NI)'s operating expenditure we have considered a level of efficiency that we feel is achievable in the business over the next five years. As with any price control, the reason for the inclusion of an efficiency factor is to incentivise BGE(NI) to continue to improve the efficiency at which they operate their network. We have therefore included an efficiency factor in our decision for gas years 2013/14, 2014/15, 2015/16, 2016/17.
- 5.2 We are proposing to apply an efficiency factor of 1.5% p.a. (compounded) of total controllable operating expenditure.
- 5.3 This efficiency factor was used by Ofgem in the one-year rollover (to operating in the period 1 April 2012 to 31 March 2013) to the current gas and electricity transmission price controls (TPCR4) which is due to expire on the 31 March 2012. This is in line with the original TPCR4 proposals.

Impact efficiency factor on proposed allowance

- 5.4 The table below shows the impact of our proposed allowances including the efficiency factor of 1.5% p.a. (compounded).

Table 6 – Controllable Opex adjusted for efficiency factor, £k

Cost Item	Total 2012/13 -2016/17			
	BGE Submission	UR Proposed Allowance	Difference	% Difference
Maintenance	8,377	8,116	-261	-3%
Training	25	25	-	0%
Safety Campaign	570	430	-140	-25%
Admin & Utilities	540	540	-	0%
Grid Control	1,248	1,248	-	0%
Asset Management	322	-	-322	-100%
Detailed Design	125	-	-125	-100%
Scheduling & Dispatch	309	-	-309	-100%
HSQE	25	-	-25	-100%
Wayleaves	73	-	-73	-100%
Transportation Services	1,514	766	-748	-49%
Consultancy/Legal	100	100	-	0%
ALO & Agricultural Remedials	775	775	-	0%
Insurance	1,388	975	-413	-30%
Shared services	-	1,340	1,340	-
IT	1,408	-	-1,408	-100%
Secretariat	515	-	-515	-100%
Finance	662	-	-662	-100%
HR	243	-	-243	-100%
Facilities	559	-	-559	-100%
Group recharge	522	-	-552	-100%
Total Controllable ex Capex	19,300	14,315	-4,985	-26%

Cost Item	Total 2012/13 -2016/17			
	BGE Submission	UR Proposed Allowance	Difference	% Difference
Reclassification of Capex		472		
Total Controllable inc Capex		14,787		
Efficiency Factor 1.5%		432		
Total controllable opex		14,355		

Source: BGE(NI) and the Utility Regulator

Customer impact

- 5.5 From table 7 below you can see that the impact of our proposals would mean an increase of £0.03p on the domestic consumer's annual tariff against the previous decision. The table also shows the impact of the UR proposed allowance against BGE(NI)'s proposed allowance. If UR had accepted BGE(NI)'s proposed allowance then the domestic customer would have been £2.43 per annum worse off.

Table 7 – Impact on customers of opex and capex allowances

Impact on Consumers	UR proposed allowance V BGE(NI) current allowance	BGE(NI) proposed allowance V UR proposed allowance
Domestic consumer	Increase of £0.03p	Decrease of £2.43
AQ=400 therms Load factor = 37.5%		

Source: Utility Regulator

These are indicative and depend on assumptions made

APPENDIX 1

BGE(NI) Actual Operating Expenditure

Operating Expenditure Actual Costs, £'000

Cost Item	2007/2008	2008/09	2009/10
Maintenance	1,271	1,388	1,353
Training	11	-3	-
Safety Campaign	11	13	42
Admin & Utilities	120	89	133
Security	48	57	58
Transmission support (inc. Grid Control)	399	476	449
Transportation Services	172	295	276
Consultancy/Legal	47	20	2
ALO & Agricultural Remedials	153	336	256
Insurance	180	226	179
Shared Services	261	295	281
Total Controllable Opex	2,673	3,192	3,029

Source: UR

APPENDIX 2

Controllable opex summary

In the table below we set out a summary of the total opex allowances we propose for the price control period.

Controllable Opex, £k

Cost Item	BGE Submission						UR Proposed Allowance						Difference	
	12/13	13/14	14/15	15/16	16/17	Total	12/13	13/14	14/15	15/16	16/17	Total	Total	Total, %
Maintenance	1,691	1,675	1,654	1,692	1,665	8,3777	1,639	1,623	1,623	1,602	1,640	8,116	-261	-3%
Training	5	5	5	5	5	25	5	5	5	5	5	25	-	0%
Safety Campaign	138	108	108	108	108	570	110	80	80	80	80	430	-140	-25%
Admin & Utilities	108	108	108	108	108	540	108	108	108	108	108	540	-	0%
Grid Control	248	249	250	250	251	1,248	248	249	250	250	251	1,248	-	0%
Asset Management	64	64	64	65	65	322	-	-	-	-	-	-	-322	-
Detailed Design	25	25	25	25	25	125	-	-	-	-	-	-	-125	-
Scheduling & Dispatch	60	61	62	63	64	309	-	-	-	-	-	-	-309	-
HSQE	5	5	5	5	5	25	-	-	-	-	-	-	-25	-
Wayleaves	13	14	15	16	16	73	-	-	-	-	-	-	-73	-
Transportation Services	300	302	305	306	302	1,514	149	154	155	156	152	766	-748	-49%
Consultancy/Legal	20	20	20	20	20	100	20	20	20	20	20	100	-	0%
ALO & Agricultural	200	175	150	150	100	775	200	175	150	150	100	775	-	0%
Insurance	262	262	288	288	288	1,388	195	195	195	195	195	975	-413	-30%
Shared services							268	268	268	268	268	1,340	1,340	
IT	223	257	306	322	301	1,408	-	-	-	-	-	-	-1,408	-
Secretariat	105	103	102	102	103	515	-	-	-	-	-	-	-515	-
Finance	129	131	133	134	135	662	-	-	-	-	-	-	-662	-
HR	48	48	49	49	49	243	-	-	-	-	-	-	-243	-
Facilities	111	112	112	111	113	559	-	-	-	-	-	-	-559	-
Group recharge	104	104	104	104	104	552	-	-	-	-	-	-	-522	-
Total excluding capex	3,859	3,828	3,864	3,923	3,825	19,300	2,942	2,877	2,833	2,872	2,791	14,315	-4,985	-26%
Capex Reclassified							12	12	12	423	12	472	-6,931	-94%
Total including capex							2,954	2,889	2,845	3,296	2,803	14,787	-	-45%
Efficiency 1.5% factor								43	83	144	162	432		
Total including impact							2,954	2,846	2,762	3,152	2,641	14,355		

Source: BGE(N) and the Utility Regulator

Uncontrollable opex summary

Uncontrollable Opex, £k

Cost Item	BGE Submission						UR Proposed Allowance						Difference	
	12/13	13/14	14/15	15/16	16/17	Total	12/13	13/14	14/15	15/16	16/17	Total	Total	Total, %
Uncontrollable Opex	6,251	TBC	TBC	TBC	TBC	6,251	-	-	-	-	-	-	-	100%
Non routine	100	100	100	100	100	500	-	-	-	-	-	-	-500	100%
Innovations	80	80	80	80	80	400	-	-	-	-	-	-	-400	100%
Rates	425	432	440	464	487	2,248	425	432	440	464	487	2,248	-	-
UR Licence Fee	390	390	390	390	390	1,950	390	390	390	390	390	1,950	-	-
CER Licence Fee	TBC	TBC	TBC	TBC	TBC	TBC								
PSA Admin Fee			30			30			30			30	-	-
Total	7,246	1,002	1,040	1,034	1,057	11,379	815	822	860	854	877	4,228	-	-63%

Source: BGE(NI) and the Utility Regulator