

Sub Appendix

A19:E

# Programme Investment Organisation - Repex Programme Delivery



# We have designed the Programme Investment organisation to meet this challenge

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## *Key principles:-*

- Focus - stopped people wearing multiple hats.
- Tried and tested industry best practice in three areas:-
  - Programme and project management;
  - Contract management; and
  - Supply chain & procurement.
- Scalable across larger work volumes and new geographies with marginal additional cost within Programme Investment.
- Centralised intelligent leadership to suppliers.

***Programme Investment has a pivotal role in the overall success of our new business operating model which is clearly aligned to RIIO principles***



# The Programme Investment operating model is designed to provide end to end control

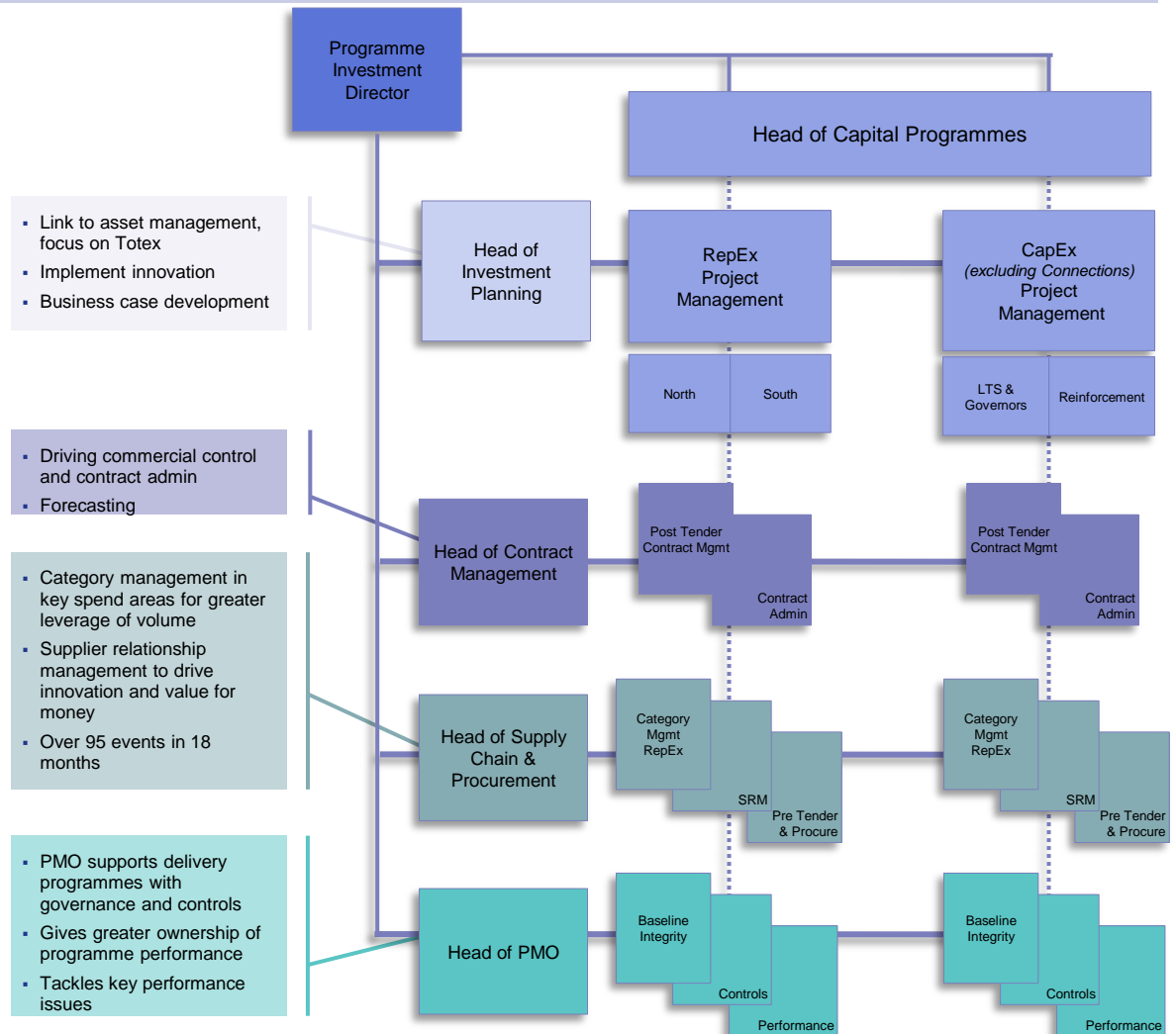
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# Programme Investment Organisation

## Benefits:

- Matrix structure allows a number of contracting models.
- Structured to support delivery programmes rather than fully centralised.
- Gives clear demarcation of roles and responsibilities with a focus on core skills and activities.
- Removes duplication.
- Deliver key support activities and technical expertise where they are needed.
- Repex structured between N & S to reflect the commercial strategy.
- Structure facilitates sharing of best practice in planning and delivery.
- Centralised team based in Leeds.



# Repex Procurement Strategy

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- The NGN procurement programme, running from January 2012 to March 2013, currently consists of approximately 80 individual procurement events across all spend categories with an annual expenditure of circa £80m. This includes tendering our main Repex programme contracts for the RIIO-GD1 time period.
- Establishing a rationalised suite of delivery resources is key to our delivery plans for RIIO-GD1.
- Continually reviewing our options to take advantage of changing market conditions.
- Tiered approach to expenditure – the procurement team only lead on procurement events of over £50k ensuring that appropriate focus is given to major expenditure areas. At the same time the team do however perform an audit and governance role on spend below £50k with a view to looking at consolidation and rationalisation opportunities.
- Market benchmarking – key materials costs such as PE pipe and fittings are monitored and reviewed regularly via an established gas network forum. NGN also utilises its link with other shareholder group companies in this respect.
- Collaboration – where appropriate we collaborate with other gas networks to strengthen its negotiating power in key spend areas.



# REPEX Procurement Strategy (Cont'd)

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- Synergy – NGN is working on an ongoing programme of expenditure opportunities with other shareholder owned companies in the UK. Through leveraging our group purchasing power we are aiming to achieve an extra value through such an approach.
- Mid-term contract reviews – on a selective basis we are challenging the costs within selected contracts 'mid-term' rather than waiting until the existing contracts approach their expiry date.
- Frameworks – where appropriate we are establishing new framework agreements to ensure that all expenditure is challenged through selected suppliers at the most competitive rates available.
- Innovation – the procurement team is actively challenging its supply base to generate new ideas that will improve the efficiency of the network and lower cost.
- Policy & Processes – both the policy and processes are being reviewed and updated to ensure best practice, regulatory and legislative compliance and internal governance. We are currently in the process of moving to a new SAP e-procurement platform to maximise the efficiency of our tendering process and to provide increased visibility and governance.



# Repex Programme Management Strategy

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- Organising our workload into a detailed structure across any given period requires us to plan, execute and deliver in a short medium or long timescales reflecting its priority, environmental constraints, job requirements and customer impact.
- Programme management is about organising these planned works into an OPTIMISED PROGRAMME of work that we then agree with our partners how best to resource and then deliver within the required timescales. This is known in contract terms as an ACCEPTED PROGRAMME and focuses on the completion of jobs, as planned and on time rather than any other measure.
- Programme delivery will improve overall efficiency by creating greater forward visibility, better preparation prior to job commencement and therefore removal of failure and switching costs as successive sites are mobilised, demobilised and re-mobilised to allow for job constraints that were not foreseen at the outset.
- Programme delivery is based around a series of 'job completions' rather than an absolute length. Therefore, the work is delivered as planned and the output target is then reflected in the completed programme, adjusted for any records or mapping discrepancies.
- It is a key principle of the preparation of work and how it is delivered through our contract partners that every issue that is reasonably foreseeable prior to job commencement is managed before job commencement – simple to say but hard to do!



# Repex Contract Management Strategy

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## Commercial controls

- There is an established set of Commercial and Contractual controls
  - ✓ Zero volume guarantees within frameworks;
  - ✓ Capped pain gain mechanisms reducing NGN financial exposure;
  - ✓ Compensations Events clauses within frameworks time bound to ensure no 'cost shocks' at year end;
  - ✓ Cost assurance through schedule of rates derived through annual competitive tender;
  - ✓ Disallowed cost management through Forensic Cost Assurance Audit (FCA) programme.

## Contract Management (CM)

- Contract management function provides pre and post contract management and cost intelligence across the end to end process
  - ✓ CM team supported by external specialists;
  - ✓ Control of programme through business leading systems enabling effective cost and value forecasting;
  - ✓ Monthly workload and cost reconciliation for final account purposes;
  - ✓ Internal FCA embedded within CM team;
  - ✓ Pre and post contract reviews to determine future contract strategy.



# Repex Commercial Delivery Strategy

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## RIIO-GD1 Delivery model

**Yorkshire Tier 1** contractor framework, includes a maximum of 2 contractors, each company will deliver 200km of Risk Replacement plus Diversion, Condition and Reinforcement works. The contract is based on simple commercial model (NEC 3 Option A).

- The support for the full Repex workload will be a co-joined and co-located integrated back office team based in Leeds. This team will consist of BBUSL, Enterprise and NGN staff. This team will work closely with our new Customer Operations teams and the Asset and Risk Management team to ensure leakage, water ingress and complaint history is being utilised in determining all new risk projects, therefore ensuring we have a positive customer impact built into our replacement projects.
- KPIs aligned to incentives in RIIO-GD1, customer, safety and efficiency. Tender event commencing in March 2012 for contract commencement in April 2013.



# Repex Commercial Delivery Strategy

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## RIIO-GD1 Delivery model

- **North East & Cumbria Direct Service Provider (DSP)** – We have procured a framework with up to 15 owner managed organisations. Eight of these organisations will be active at the commencement of the 2012/13 Regulatory Year with seven passive.
- Each of the eight DSP's will be aligned with their own Highways Agencies and where possible their own geographical areas assisting greatly with HA stakeholder engagement.
- All 15 organisations will be inducted and included in monthly briefings and safety/customer alerts.
- The DSP unit will be supported by NGN infrastructure and the NGN back office structure.
- Again based on simple schedule of rates contract with KPIs aligned to incentives in RIIO.

