

Cost Confidence Overview



Interaction with the Totex Incentive Mechanism

- The proposed RIIO-2 Business Plan Incentive (BPI) has identified that high-confidence baseline costs will attract a 50% incentive Totex incentive rate, with other costs attracting a 15% Totex incentive rate.
- Ofgem has indicated that companies may submit supporting information to help this classification. This may include:
 - Links to actual costs
 - Evidence forecasts arrived at via a competitive process or other market testing
 - Other Independent benchmarking
 - Costs with unit costs, volume drivers, uncertainty mechanisms attached to protect consumers from forecasting errors
- We have reviewed our cost base and developed an economic assessment / overview of our Totex costs in a consistent framework to consider setting a confidence level on our RIIO-2 forecast expenditure.



Cost Confidence Overview



Process

- In order to assess confidence it is important to look at both historic and forecast costs within context and from different view-points to gain an overall level of confidence – a 'rounded view'.
- We have identified four main 'views' to look at all costs and then assessed each 'view' against a set of criteria – based on Ofgem's suggestions and our own internal review
- Each view is scored between 0-3 based on four levels of confidence with 3 being the highest the summary tables that follow tables do not include 0 as it was found no areas were at this level
- With the four 'views' identified there are both interdependencies and clear variances – meaning it will be difficult to score full marks in each area
- The maximum score is 12. Based on the above we have assumed 8 and above would rank as High Confidence, 6 and 7 would need further review, with 5 and below ranking as Low Confidence.
- The review was carried out at the activity level. Consideration would need to be given where there are clear trade-offs between activities
- The results are summarised at both the Totex and Opex / Capex / Repex levels.



Cost Confidence Overview



'Views'

Benchmarking	Resourcing
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Consider what external benchmarking is carried out when setting historic costs – which then feeds forward into future costs. This will be linked to Costs and Workload – if future total and unit costs vary from benchmarked history clear explanation needed. Benchmarking could be by activity, cost type, in sector or out of sector, or by strategy when forward looking

Consider mix of resources used – whether resources have been purchased from the market under competitive tender. Not a guide by itself, as may not tender the best or most efficient process / activity. Clear interaction with benchmarking which will help determine whether an outcome is efficient

Costs Workload

Consider whether costs are homogenous, unit costs are available, or costs set at the activity level, and how future costs relate to history. Any material variances will need appropriate levels of justification. Determine whether any uncertainty mechanism is included for either total costs or unit costs that may vary. Overall a close relationship with workload, but need to cross check that mix of workload and unit costs don't hide overall cost movements

Consider whether workload / effort is homogenous with identifiable unit costs, or set at the activity level, and how future workload relates to history. Any material variances will need appropriate levels of justification. Determine whether any uncertainty mechanism is included for workload / policy changes. Determine whether any uncertainty mechanism is included for either total costs or unit costs that may vary. Similar close relationship with costs but need to understand mix



Summary of Results



Scores 11-12 9-10

7-8

Total

Scores

Totex = 10.3 Weighted Average High Confidence

Repex = 11.3 Weighted Average High Confidence. Relatively homogenous activity overall which can clearly be benchmarked at the activity level, workload is main variance which has clear justification for variances. High proportion outsourced

Opex = 9.8 Weighted Average

High Confidence. Some homogeneity for material areas such as Emergency and Repair. More a mixture of base costs insourced with outsourcing for specialists and peak management. Benchmarking at both Gas Network level and Utility level for Business Support Activities

Capex = 9.3 Weighted Average

High Confidence. Least homogenous in high spending areas – connections, reinforcement, vehicles, governors an exception. Benchmarking needs to be a mixture of statistical and engineering oversite. Highly outsourced for use of specialists and bought in products

		Benchmarking	Resourcing	Costs	Workload	Total	Costs	Weighted
	Asset Mngt - ongoing	3	2	2	2	9	2	
	Asset Mngt - Projects	1	3	2	2	8	4	
	Operations Mngt	3	1	3	3	10	8	
	Customer Mngt	3	3	2	3	11	2	
	System Control	3	1	3	3	10	1	
	Emergency	3	1	3	3	10	10	
	Repair	3	2	3	2	10	15	
	Maintenance	3	3	2	2	10	17	
Opex	Other Direct Act.	2	3	2	2	9	4	9.8
	IT and Telecoms	3	3	3	2	11	7	
	Property	3	3	2	2	10	3	
	Human Resources	3	1	2	2	8	1	
	Audit, Finance, Reg.	3	2	3	3	11	4	
	Insurance	2	3	2	2	9	3	
	Procurement	3	2	2	2	9	0	
	CEO	2	2	2	2	8	5	
	Training&Apprentices	3	2	2	2	9	3	
	Tier 1 and >2" steel	3	3	3	3	12	62	
	Tier 2a	3	3	3	3	12	1	
	Tier 2b / 3	3	3	3	3	12	14	
	>2" Steel	3	3	3	3	12	5	
Repex	Other Mains	3	3	2	2	10	5	11.3
	Stubs	1	3	2	1	7	8	
	Diversions	3	3	3	3	12	2	
	MOBs	2	3	2	2	9	1	
	Other Services	3	1	3	3	10	8	
	LTS Pipelines	1	3	2	2	8	7	
	Offtakes and PRSs	1	3	2	2	8	10	
	Governors	2	3	3	3	11	2	
Capex	Reinforcement	3	3	2	2	10	6	9.3
	Connections	3	2	3	3	11	8	
	Other - Network	1	3	2	2	8	7	
	Other - Non Network	2	3	3	2	10	16	
							250	10.3



Operating Expenditure Assessment



Northern Gas Networks

Asset Management – Ongoing

		Ranking	Score	Justification	
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Majority of costs are People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	c40% outsourced contractors and professional and consultancy
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Future costs are lower than the recent 3 year average and the average for RIIO-1 Historic costs vary but clear explanation has been provided in the annual RRP – recent variations due to movements in Professional and Consultancy
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Underlying effort has been explained in the RRP – varied in RIIO-1 as a result of focus on developing NARMs / Asset Management processes / Hydrogen Support. In future no spikes and broadly flat – linked to overall costs above
				9/12	



Asset Management - Projects (Holder Demolition / Land Remediation)

		Ranking	Score	Justification	
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	1	Very bespoke work with no clear benchmark Limited information in the RRPs to benchmark against the other networks
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>90% of the work is outsourced to specialist contractors competitively tendered
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Average future cost per Holder is within 5% of the costs seen in RIIO-1. Holders makes up c80% of the total. Costs can vary materially. Individual costs are provided in the BPDTs. Average expenditure for Land Remediation in RIIO-2 is less than RIIO-1 when 2013/14 is excluded (major works only began in 2014/15). Costs can vary materially per site
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Workload isn't homogenous but as discussed above the average holder cost and overall costs for remediation— which reflect effort — are in line with RIIO-1 or lower In future no spikes and broadly flat — linked to overall costs above
				8/12	

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Operations Management

		Score	Justification		
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Majority of costs are People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	1	c90% insourced salaries and wages
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Clear trend downwards and link to history all explained annually in the RRP Future costs are lower than the recent 3 year average and the average for RIIO-1
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Workload is linked to overall management of Emergency, Repair, Maintenance – some but not all broadly homogenous and broadly consistent over time, repair decreasing gradually, maintenance increasing but no spike in costs
				10/12	

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Customer Management

		Ranking	Score	Justification	
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review c30% of costs People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>65% outsourced to Cadent for the National Call Handling Service – commercially managed on arms length agreement
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 RRPs provide a trace of year on year movements providing clear history – costs have varied but mainly due to rebates for Cadent contract, in arrears Costs trending down and lower than recent costs, after taking into account rebate received in 2018/19 (Annual Report p33)
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Majority of workload driven by National Call Handling Centre – remainder by overall PRE / Repair mix – broadly consistent over time
				11/12	

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System Control

		Score	Justification		
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Majority of costs People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	1	• >95% insourced salaries and wages
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 RRPs provide a trace of year on year movements providing clear history Costs trending down and lower than recent costs,
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Relatively fixed effort – running of 24 hour control centre and associated analysis / support
			10/12		

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Emergency

		Ranking		Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Majority of costs are People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	1	• >90% insourced salaries and wages
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Costs are clearly linked to historic performance and are linked to overall fairly static PREs Costs have decreased from new Terms and Conditions – detailed in RRP
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Main workload driver is to ensure we hit the 97% Emergency Response standard covering all of our geography – not changed and PRE volumes relatively static. Reflected in overall effort
				10/12	

Northern Gas Networks

Repair

		Ranking		Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Majority of costs are People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	 c50% insourced salaries and wages Balance contractors, materials, transport and plant
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Costs are clearly linked to historic performance and are linked to overall Repair workload – have moved in line as work has moved up and down – future trends down Unit costs available, broadly homogenous on an average basis. Costs have decreased from new Terms and Conditions – detailed in RPP
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Repair workload on a long term trend downwards, forecast takes into account variability in the short term from weather etc Justified from Statistical analysis
				10/12	

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Maintenance

		Score	Justification		
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review Outsourcing of proportion of work to Penspen provided effective benchmarking c30% of costs People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	Historically >70% outsourced, in future drops to c45% outsourced after Penspen contract insourced. Forecasts based on understanding of both
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Many elements to Maintenance, not homogenous, but cost trends can be seen with major movements due to things like OLI runs etc Future costs increase but clear explanation in the BP and accompanying IDP /CBA for growth areas
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 c70% of historic workload planned, 30% reactive – both broadly consistent – main movements as per costs above. These base costs unchanged Workload is increasing – as costs above clearly demonstrated in submission
			10/12		

Northern Gas Networks

Other Direct Activities

		Ranking		Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	Annual RRP Peer Review Minimal benchmarked people costs Mix of work difficult to benchmark
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	• >80% outsourced – materials, wayleaves, pensions
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Many diverse elements, some vary annually such as materials and District Incidents but for clear reasons, can be traced back through RRP Future costs in line with historic average
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	As costs above – diverse but elements have clear trace and where limited control – District incidents – based on averages
				9/12	

Northern Gas Networks

IT and Telecoms

		Ranking		Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis Gartner / PWC overall strategy support and benchmarking C10% salaries and wages benchmarking
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	c90% outsourced for IT delivery
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Costs have shown clear trend downwards with detailed explanations in RRP Future cost increase linked directly to Cyber with clear explanation of elements, underlying costs trend down
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Effort driven by many factors which can change – service delivery standards, cyber issues, changing technology requirements. But core network size / resourcing not changing – also major changes seen in RIIO-1 RIIO-2 more consolidation – reflected in reducing forecasts
				11/12	

Northern Gas Networks

Property

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis Refresh of sites in RIIO-1 benchmarked to local markets
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	• >90% outsourced – rent, rates, utilities, facilities etc
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Costs have increased during RIIO-1, variety of elements not homogenous, lead by markets, often local for rent / rates RRP provides history and explanation, clear trend matched to Capex spend
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Underlying need to cover geography not changed though we have reviewed, consolidated and moved in RIIO-1, sometimes through choice, other times not – which have driven costs above Future now more consistent and reducing
		10/12			

Northern Gas Networks

Human Resources

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis High proportion of costs people related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	1	• >90% insourced salaries and wages
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Costs have increased in RIIO-1 in relation tom overall people strategy, RRP provides trace Future costs clearly trending down from peak
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Costs driven by FTE volumes, role types, geography, age profiles Major changes in RIIO-1 have impacted effort now more consistent – future costs trend down from peak
				8/12	

Northern Gas Networks

Audit Finance and Regulation

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis High proportion of costs people related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	>30% outsourced professional and consultancy covering audit, tax, regulation advice
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Costs can vary mainly due to Professional and Consultancy, remainder are people costs have been reducing, overall trend down Future costs increase this trend downwards
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Base requirements are broadly consistent – variability from things like tax advice, audits, specialist support, GD2 team all managed together to minimise peaks / duplication Future forecast based on average efforts
			11/12		

Northern Gas Networks

Insurance

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	Annual RRP Peer ReviewKPMG benchmarking analysis
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	• >95% outsourced – claims, policies all tendered / 3 rd party
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Includes Policy costs and Claims neither of which are homogenous – claims in particular can vary year on year Forecast based on RRP average to date
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Claims can vary materially – number, pay out levels and litigation requirements Policies less so but concern over above and nature of sector Hence based on average to date forecast forward
		9/12			



Procurement

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis High proportion of costs people related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	c35% outsourced – procurement support, decision support tools, online portals
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	RRP traces history demonstrating increase and then decrease – clearly not homogenous Future costs comfortably lower than recent history
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Resource used to get ahead and then consolidate down when full control established hence varying effort – future more consistent and lower due to better management of lower base Underlying requirements broadly unchanged
			9/12		

Northern Gas Networks

CEO and Group Management

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	 Annual RRP Peer Review KPMG benchmarking analysis for Communications element c50% of costs people related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	c35% outsourced – stakeholder, communications, strategy specialist 3 rd parties
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Costs vary due to use of Professional and Consultancy, nature of CEO payments, limited homogeneity Future costs clearly lower than recent levels and trend downwards
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Workload not measurable or homogenous but Professional & Consultancy used to manage peaks and troughs Overall trend is broadly consistent
			8/12		

Northern Gas Networks

Training and Apprentices

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual RRP Peer Review KPMG benchmarking analysis Majority of costs people related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	• >30% bought in specialist training programmes
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Base costs show a clear link to history, but overall costs increase by c75% Forecast cost variance is driven by number of Apprentices / Graduates – all costed with salary details and training costs per unit in BPDT
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Base costs show similar effort. Future variance is driven by volume of Trainees / Apprentices
			9/12		



Mains Replacement Expenditure Assessment





Tier 1 and >2" Steel Mains and Services

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Mains abandonment and laid clearly traceable from RRP Lay / abandonment increasing but following trend Overall workload changing with clear explanation to hit the 2032 deadline - flat
			12/12		



Tier 2a Mains and Services

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Mains abandonment and laid clearly traceable from RRP Lay / abandonment increasing but following trend Overall workload reducing and with volume driver to manage any variance
			12/12		



Tier 2b / 3 Mains and Services

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials etc
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link Overall cost increasing but clear explanation with CBA
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Mains abandonment and laid clearly traceable from RRP Lay / abandonment increasing but following trend Tier 2a workload flat, Tier 3 increasing but with clear CBA
			12/12		



>2" Steel Mains and Services

	Ranking			Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link Overall cost increasing but clear explanation with CBA
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Mains abandonment and laid clearly traceable from RRP Lay / abandonment increasing but following trend Workload increasing but with clear CBA
				12/12	



Other Mains and Services

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Some Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link Variances for Phoenix lined / overcrossings explained and justified Overall cost increasing but clear explanation with CBA
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Mains abandonment and laid clearly traceable from RRP for some areas Lay / abandonment increasing but following trend Workload increasing but with clear CBA for Overcrossings / Phoenix lined
		10/12			



Stubs

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	1	New activity – no comparable benchmarks available
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	New activity – but unit costs based on historic usage of equipment in RIIO-1 with some homogeneity
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	New activity – workload based on GDN analysis and completion out to 2032. Supporting analysis provided
				8/12	



Diversions

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangement
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Unit costs traceable by diameter band and service type from the RRP with clear unambiguous link Costs based on current trend, and at a net level
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Mains abandonment and laid clearly traceable from RRP Workload broadly flat
				12/12	



Multi Occupancy Buildings

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	 Annual RRP Peer Review – but limited comparability People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>70% outsourced to DSP / Other Specialist, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	Overall costs increasing but CBA justified, based on unit costs seen in RIIO-1
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Workload increasing but CBA justified, based on risk models
			9/12		



Other Services

		Score	Justification		
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Annual RRP Peer Review People related - salaries assessed under Hays Salary Guides - wages benchmarked under Collective Bargaining Arrangements
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	1	<30% outsourced to contractors – mainly repair resource completing work
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Unit costs traceable by type from the RRP with clear unambiguous link Costs based on current trend and linked to Repair workload in Opex
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Workload shows a clear trace from RIIIO-1 and impact of Repair reductions from Opex
		10/12			



Capital Expenditure Assessment



Northern Gas Networks

LTS Pipelines

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	1	 Annual RRP Peer Review of larger visible projects Some reviews with other companies - Osaka gas
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	c80% of work outsourced to Specialist Contractors / materials purchases
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Costs are lower than historic expenditure trends when the PCD for Network Rail is excluded, work is not homogenous NGN Unit Cost Database has been used as the basis for costs
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Workload is not homogenous but workload effort is lower when the PCD is excluded PCD for Network Rail included for the workload that is less certain (58% of cost)
				8/12	

Offtakes & PRS's



Ranking				Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	1	 Annual RRP Peer Review of larger visible projects Some reviews with other companies - Osaka gas
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	c80% of work outsourced to Specialist Contractors / materials purchases
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Costs are lower than historic expenditure trends but is clearly not homogenous and directly traceable NGN Unit Cost Database has been used as the basis for costs
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Workload is not homogenous but workload effort is lower overall, trending downwards
				8/12	

Northern Gas Networks

Governors

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	 Annual RRP Peer Review – projects relatively clear and visible Some reviews with other companies - Osaka gas
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	c75% of work outsourced to Specialist Contractors / materials purchases
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Costs are lower than historic expenditure trends there is close homogeneity and traceability across activity types and unit costs NGN Unit Cost Database has been used as the basis for costs
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	Material area of workload is in line with RIIO-1
			11/12		

Reinforcement



	Ranking			Score	Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Some reviews with other companies - Osaka gas Annual RRP Peer Review – projects relatively clear and visible
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	c75% of work outsourced to DSP Contractors / materials purchases
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 General Reinforcement Costs are higher but for a clearly identified area – 98 district governors. Underlying unit rates are broadly consistent Specific Reinforcement Costs are higher but for a clearly identified area – work associated with Peaking Plant. Reopener included
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Base workload trends from RIIO-1 Supporting evidence is provided for variances
		10/12			

Connections



	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	3	 Annual update of Ofgem Benchmarking Models Some reviews with other companies - Osaka gas Annual RRP Peer Review – projects relatively clear and visible
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	2	• >30% outsourced to Contractors, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	 Unit costs can be traced directly from RIIO-1 for generally homogenous activities Overall costs reducing with clear explanation for reduction n
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	3	 Workload trends directly traceable to RIIO-1 Variance in Fuel Poor workload fully explained Volume driver in place for variance in Fuel Poor
				11/12	

Northern Gas Networks

Other Network Capex

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	1	Annual RRP Peer Review of larger visible projects Some reviews with other companies - Osaka gas etc
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	• >60% outsourced to 3 rd parties, Street works, Reinstatement, Materials
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	2	 Increase of £1.4m, but mainly in one clearly identifiable area – Overcrossings which increase by c£2m with clear justification Other major expenditure area is Pressure Management which is traceable from RIIO-1
Workload	There is a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	 Mixture of activities, limited homogeneity. Increase but clearly explained
			8/12		

Northern Gas Networks

Other Non-Network Capex

	Ranking				Justification
	1	2	3		
Benchmarking	Limited evidence of any external benchmarking	Adequate evidence of external benchmarking by cost type and / or Adequate evidence of external benchmarking at the activity level	Extensive evidence of external benchmarking by cost type and / or Extensive evidence of external benchmarking at the activity level	2	 Annual RRP Peer Review of larger visible projects Benchmarked vehicle expenditure across CKI Group Benchmarked IT Strategy with PWC / Gartner
Resourcing	<30% of costs are outsourced and subject to competitive tendering / market testing	>30% and <60% of costs are outsourced and subject to competitive tendering / market testing	>60% of costs are outsourced and subject to competitive tendering / market testing	3	>75% outsourced to vehicle purchases, materials, contractors
Costs	Costs cannot be directly linked to historic costs or unit cost and / or The costs show material change over time and there is limited evidence for the variance and the cost impact	The costs can be linked to historic costs or unit cost but they are not fully homogenous and consistent and / or Future costs are lower than recent historic costs (3 year average), with appropriate explanation for variances	The costs can be directly linked to a homogenous unit cost and / or Costs show a clear unambiguous link to history	3	Clear reduction from RIIO-1 with appropriate justification by activity area
Workload	There is no clear link or a limited link to any historic workload and / or Workload varies from the historic trend and there is no clear explanation or analysis	Workload either varies from the historic trend or is not fully homogenous and consistent over time but There are limited variances, workload is lower, or there is adequate supporting evidence explaining variances >5% p.a.	Workload is measurable, homogenous and consistent over time and / or Workload can be directly linked to historic volumes and shows a clear traceable trend based on this history	2	Mixture of activities, limited homogeneity, but overall a decrease
		10/12			