

GSG on Review of Initial Written Assessment Industry Costing approach – March 2011

During previous discussions of the draft Initial Written Assessment produced by National Grid an issue arose as to how the document could record what, at a high level, might be the potential industry costs associated with progressing the Modification Proposal in question.

The cost to the industry of progressing a particular Modification Proposal depends on two key elements; (i) will a workgroup be established and (ii) will there be consultation(s). This helps to quantify the level of industry engagement in the Modification Proposal.

Modification Proposals to the CUSC, assuming they are valid, fall into one of three types; (a) Self Governance; (b) 'Standard' Modification; and (c) (Ofgem) Significant Code Review (SCR) directed Modification.

Of these the Self Governance Modification is least likely to involve (i) a workgroup or (ii) multiple consultations. In contrast a more complex modification; such as an SCR directed Modification; is likely to involve many workgroup meetings and numerous industry consultations. The nearest example of what might be involved, with a 'Complex Standard' modification (like an SCR Modification) is the suite of TAR changes (CAPs 161-166) during which the associated workgroups met over sixty times over the course of nine months – a huge contribution from industry that some believe has not been recognised.

Thus it is possible, for each of the three Modification Proposal types, to estimate:-

- 1) the number of workgroup meetings that may take place;
- 2) the number of workgroup members may participate;
- 3) the number of consultations that may take place;
- 4) the number of industry consultation responses that may be received; and
- 5) the amount of effort that industry may contribute to (1) and (3)

From this, using a pre-agreed charging rate, it is possible to place a financial figure on the estimated industry contribution to progress the Modification Proposal. It is also possible, at the conclusion of the Modification Proposal, to provide an 'actual' figure as well as compare the estimate with the actual to see if the estimate was broadly correct – noting that the assessment of Modification Proposals can, as they develop, entail further work being required from that initially estimated.

It is proposed that the charging rate should be based on the pre-agreed rate used by National Grid to charge industry; as set out in "The Statement of Use of System Charges"; for a Project Manager / Senior Power System Engineer, which is currently £605 per day to cover salary, pension, overheads etc. This figure increases, subject to regulatory oversight, with inflation etc.

In light of this, it is proposed that the GSG considers the following strawman model of what the Code Administrator could use to quantify, in the Initial Written Assessment, the cost of industry participation in a Modification Proposal. The figures shown are indicative.

Self Governance	
Number of workgroup meetings	0
Number of workgroup members	0
Level of workgroup member contribution ¹ per meeting (man days)	1.5
Sub total of man day effort for workgroup	0
Number of industry consultations	1
Number of consultation respondents ²	3
Level of industry contribution ³ per consultation response (man days)	0.5
Sub total of man day effort for consultations	1.5
Estimated cost to industry (man days x £605 / day)	£907

Standard	
Number of workgroup meetings	3
Number of workgroup members	8
Level of workgroup member contribution per meeting (man days)	1.5
Sub total of man day effort for workgroup	36
Number of industry consultations	2
Number of consultation respondents	10
Level of industry contribution per consultation response (man days)	1.5
Sub total of man day effort for consultations	30
Estimated cost to industry (man days x £605 / day)	£39,930

Complex Standard	
Number of workgroup meetings	10
Number of workgroup members	14
Level of workgroup member contribution per meeting (man days)	1.5
Sub total of man day effort for workgroup	210
Number of industry consultations	3
Number of consultation respondents	16
Level of industry contribution per consultation response (man days)	4
Sub total of man day effort for consultations	192
Estimated cost to industry ⁴ (total man days x £605 / day)	£243,210

¹ Its assumed that workgroup members will need time to read papers before the meeting / prepare / travel to-from the meeting etc., as well as attend the meeting itself and this is quantified as 1.5 days effort per (one day) meeting of the workgroup.

² In the past the number of consultation responses has varied significantly, depending on the importance that industry attaches to the Modification Proposal being considered.

³ The greater the importance of the proposed change the more effort given to responding in terms of, for example, seeking views internally, checking with colleagues on the business implications, reviewing legal text with lawyers etc., etc. The figure is designed to cover all a stakeholder's effort, not just the individual who responds.

⁴ This excludes any Code Administrator costs recovered from industry; such as for hosting meetings, preparing / issuing consultation etc., or the cost of any externally commissioned work, such as a cost benefit analysis (which is most likely for an SCR and least likely for Self Governance).

