ANNEX 5 - MARKET TESTING SUMMARY AND MATRIX OF BENCHMARKING

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1. Executive Summary

The use of benchmarking and identification of best practice have been critical in developing the WJBP for RIIO-ED1.

We benchmark to help us understand;

- How well our organisation delivers services for our customers and stakeholders and;
- What we can do to deliver more.

We see benchmarking as a continuous activity and key to our approach for RIIO-ED1. We use a mixture of internal comparators and benchmarks of national and international organisations to accurately measure our performance and identify best practice. Our engagement with a number of industry forums also allows us to share our best practices with others.

We have also engaged independent organisations to complete much of our benchmarking activity so that we can gain a balanced and unbiased view of how well we have performed and what actions we need to take to improve.

The matrix shows our key benchmarking and best practice activities aligned to our stakeholder priorities.

We have supplemented the benchmarking undertaken to support the previous version of our business plan with two additional activities:

- We have utilised the benchmarking undertaken by Ofgem as part of the fast-track assessment.
- We have undertaken a specific consultation with our supply chain partners and other potential supply chain participants on key unit rates.

Our benchmarking is action oriented i.e. we act upon the results of the benchmark where we believe we can drive a better outcome for our stakeholders. These activities are included in our WJBP for RIIO-ED1.

2. Additional Benchmarking for March 2014 Business Plan

2.1. Benchmarking Key Unit Rates

In order to utilise the benchmarking undertaken by Ofgem as part of the fast-track assessment, it has been necessary to understand in detail the models which make up Ofgem's disaggregated approach and the way they have been used.

This is no easy task as there are over 40 component models. Some of these consider volume and unit cost activity separately; some undertake a combined assessment and others are based on regression analysis. Within the models, a variety of model forms are used, and their results are used in different ways (sometimes comparing to medians; sometimes allowing offsetting, sometimes not; sometimes excluding elements or specific data for separate assessment etc.).

Most of the models include an element of 'cherry-picking' whereby the idealised results are not representative of a position that an individual DNO can realistically achieve. To correct for this, Ofgem include an adjustment to align the consolidated results with those of the identified upper quartile company.

2.2. Modelling observations

Ofgem's models were built to facilitate a fast-track assessment and hence are not necessarily representative of a traditional price control assessment process, despite their detail.

As such, they are generally based on very broad parameters, typically being one of;

- Trend analysis;
- Comparison to median intervention rates; or
- Comparison to median unit costs

For volume assessments in particular, a 'lesser of' rule is usually applied, ie the company gets the lesser of its own forecast or a modelled outcome based on the median rate. In these models, all companies receive downwards adjustments to their forecasts to varying degrees.

Some of the unit cost models do allow offsetting, ie lower than benchmark costs to offset higher than benchmark costs; although this does not universally apply.

Our analysis highlighted that we should focus on a small number of key unit rates for asset replacement, particularly at Extra High Voltage, as can be seen from the table below.

Activity	Unit	Programme Volume	ENWL Unit Rate in submitted in July 2013	Ofgem "Expert View" Rate	Programme Size	% difference
33KV Transformers	Nr	103	£373,340	£272,500	£38,454,020	27%
6.6/11kV CB (GM) Primary	Nr	936	£35,370	£27,500	£33,106,320	22%
33kV UG Cable (Non-Pressurised)	KM	182	£281,890	£263,400	£51,303,980	7%
132kV OHL (Tower Line) Conductor	KM	106	£84,576	£49,200	£8,965,036	42%
LV Pillar (OD at Substation)	Nr	896	£8,987	£7,700	£8,052,659	14%

2.3. Market Testing Consultation with Supply Chain

For each of these five unit rates we have undertaken a specific consultation with our supply chain partners and other potential supply chain participants to understand whether a lower unit rate than included in the previous version of our business plan could be possible. In some areas the supply chain has indicated that we will need to change some of policies or ways of working to enable a lower unit cost. Where this is appropriate after further testing we have committed to make the necessary changes. The details of the feedback from the supply chain and our subsequent revisions are summarised below.

2.3.1. Ground Mounted 33kV Transformers

We have reviewed our unit rates for 33kV Ground Mounted Transformers and compared these with the rates submitted in the well-justified business plans of the other DNOs. This comparison indicated that our rates may not represent what the best in class can achieve and seem to be 27% higher than the rate Ofgem's experts have indicated may be possible to achieve. We have looked at the component elements of this rate and our sourcing strategy. It does not seem that this level of reduction is possible through procurement or reductions via our supply chain. However, our providers have indicated that the most recent rates achieved on the latest jobs may form the basis for a sustainable saving into RIIO-ED1. Furthermore, the design and commissioning elements of the unit rate for these items may present an opportunity for additional reductions. As a result we have reduced this unit rate by 9% giving a £35,000 reduction per unit which reduces our overall programme by £3.6million.

2.3.2. Ground Mounted 6.6/11kV Primary Circuit Breakers

Our unit rates for 6.6 to 11kV Ground Mounted Circuit Breakers do not compare favourably with the rates submitted in the well-justified business plans of some other DNOs and are 22% higher than the target rate used by Ofgem in their cost assessment. We have reviewed recent performance and the best unit costs that have been achieved for the installation of similar circuit breakers. This indicates that a 5% reduction in unit rates is possible. Our RIIO-ED1 plan includes the construction of 936 circuit breakers at this voltage for asset replacement and reinforcement which is an increase on current activity levels. Consultation with our key equipment providers has indicated that an 8% reduction in the unit cost may be achievable through a commitment to a bulk purchasing arrangement. Therefore we have used this information to calculate a new unit rate that is £4,500 lower than our previous plan, a 13% reduction. This unit rate will reduce our overall programme by £4million.

2.3.3. 33kV Underground Cable (Non-Pressurised)

Our rates for a unit of 33kV Underground Cable do not compare favourably with the rates submitted in the well-justified business plans of some other DNOs and appear to be 7% higher than the rate Ofgem's experts have indicated may be possible to achieve. We are aware that the most expensive component of cable laying is the hole that must be excavated for the cable. As a result we have consulted with our supply chain to review whether a change in policy would enable them to tender lower rates. Feedback indicates that a narrower, and therefore cheaper, trench could be achieved by reducing the cover depth and omitting the requirement for covering cable tiles. We have also reviewed our assumptions on how many single and double circuits will be required. Assuming a 60/40 ratio of double to single circuits we believe a significant improvement of 10% in the unit rate can be achieved. This will reduce our overall programme costs by £5million.

2.3.4. 132kV OHL (Tower Line) Conductor

We have reviewed our unit rates for 33kV Ground Mounted Transformers and compared these with the rates submitted in the well-justified business plans of the other DNOs. To do this we created a simple 132kV overhead line costing model using a typical mix of work

involved in rebuilding 1km of line, to look at the unit costs in the round and avoid cherry-picking between the tower, conductor and fitting rates.

This comparison indicated that our rates seem to be 42% higher than the rate Ofgem's experts have indicated may be possible to achieve. However, our modelling indicates that some of this effect is caused by creating an 'Expert View' that uses RIIO-ED1 medians for conductors and fittings, but the DPCR5 median for the Towers. This is a substantially lower median rate than would have been determined by using RIIO-ED1 rates only.

We have consulted with our relevant suppliers in the supply chain on this specific rate. Our providers have indicated that the most recent rates achieved on the latest round of tenders should form the basis for a sustainable saving into RIIO-ED1. As a result we have reduced this unit rate by 8% giving a £7,000 reduction per kilometre which reduces our overall programme by £740,000

2.3.5. Outdoor LV Pillars

Our unit rates LV Pillars do not compare favourably with the rates submitted in the well-justified business plans of some other DNOs and are 14% higher than the target rate used by Ofgem in their cost assessment. We have reviewed recent performance of our framework contractors and the best unit costs that have been achieved for the installation of pillars recently. We have also evaluated what it may be possible to achieve by using our own labour resources for this work rather than contractors. Using our direct labour organisation in line with our delivery strategy appears to offer the best outcome and as a result a 5% reduction in unit rates has been forecast. Our RIIO-ED1 plan includes the replacement of 896 LV pillars an increase on current activity levels. This unit rate reduction will reduce our overall programme by £420,000.

2.4. Rising and Lateral Mains

In addition to the consultation with supply chain partners on the five unit rates described above, we have also explored the possibilities of reducing the costs associated with addressing Rising and Lateral Mains (RLM).

We completed a small number of RLM pilot projects using specialist contractors and went to the market for a number of framework contracts to deliver the increased volume of work in the remainder of DPCR5 and the RIIO-ED1 period.

The costing of the RIIO-ED1 RLM replacement programme was previously based on prices quoted by our then-current RLM contractor for work in DPCR5 with an assumed efficiency from a competitive tender process. This additional tendering exercise revealed lower contractor prices than previously forecast and as a result we have reduced the RLM forecast in RIIO-ED1 by £1.6m.

3. Benchmarking Definitions

National Benchmarking	Benchmarks against other UK&I organisations. This includes benchmarking within and outside of our industry sector
International Benchmarking	Benchmarks against organisations outside the UK&I, although predominantly within our industry sector
Best Practice	Activities that are widely recognised as best practice within the UK&I
International Best Practice	Activities that are internationally recognised as being best practice – this includes ISO accreditations

4. Benchmarking Matrix – July 2013

Benchmarking Activity	Reliability	Sustainability	Affordability	Customer	Safety	CSR	Other
Progressing and participation in the BITC Corporate responsibility index						National Benchmark	
ISO 31000 Accreditation in Risk Management - Principles and guidelines							International Best Practice
ISO 14001 Accreditation: Environment Certification		International Best Practice					
Asset Management Accreditation : PASS-55	International Best Practice						
Energy Networks Association: Working groups with other energy companies and electricity DNOs to discuss innovation, best practice and new legislation	Best Practice	Best Practice	Best Practice	Best Practice	Best Practice	Best Practice	
Benchmarking of salary and benefits against market place							National Benchmark
Full compliance with OJEU and procurement laws						Best Practice	
Connections competition benchmarking & feedback from IDNOs and the market place		Best Practice		Best Practice			
Cost efficiency benchmarking exercise against other DNOs using our Finance Steering Group			National Benchmarking				
Tree cutting costs benchmarked against competitive Market prices			National Benchmarking				
Engagement with the Institute of Customer Service (ICS) - Facilitate benchmarking visits to customer leading organisations to see and learn from best practice in action				Best Practice			
Business wide benchmarking against the competitive unregulated asset management industries (Mott MocDonald)	National Benchmarking				National Benchmarking		National Benchmarking
IT Services benchmarking by the Gartner group (Scope, Service level and cost)			National Benchmarking				National Benchmarking
PB power benchmarking of volume plans against reliability objectives to identify alternative approaches and best practices	National Benchmarking		National Benchmarking				
AccountAbility benchmarking of stakeholder engagement strategies against other DNOs: Our description of our 2012/13 stakeholder engagement programme for the reporting year ended 31 May 2013 has been independently assured against AA1000APS principles in accordance with the International Standard on Assurance Engagement 3000				National Benchmarking & Best Practice		National Benchmarking & Best Practice	

Benchmarking Activity	Reliability	Sustainability	Affordability	Customer	Safety	CSR	Other
Demand forecast, derived from general UK government economic forecast and regionalised by CEPA	National Benchmarking	National Benchmarking	National Benchmarking				
Low Carbon Technology volumes as per DECC forecast		National Benchmarking					
LCT intervention costs for secondary network derived from UQ costs contained in the Transform model as instructed by Ofgem		National Benchmarking	National Benchmarking				
Maturity modelling of Investment levels in IT in comparison to similar size/type organisations			**International Benchmarking**				
Benchmarking into the Cost of Finance function as a percentage of company revenue (UK companies)							National Benchmarking
IT budget as a percentage of company revenue (international electricity sector)			**International Benchmarking**				
Property : Average amount of workspace available per employee			National Benchmarking		National Benchmarking		
Assessments and Comparison for the appropriate size of a Trouble call organisation - benchmarked against similar scale UK organisations	National Benchmarking		National Benchmarking				
Benchmarking of UK in-house contact centres - key measure cost per inbound call			National Benchmarking	National Benchmarking			
Independent high level analysis of Corporate Competitiveness against other similar scale organisations (KPMG)						**International Benchmarking**	
Independent assessment of asset management practices - Maturity Modelling of CBRM comparative assessment against Asset management cycle model (Mott McDonald)	Best Practice						
Extensive market testing and tendering in the market by the Procurement Team			National Benchmarking				
Independent review of all fixed and CAI costs for RIIO-ED1			National Benchmarking				
Independent assessment of Business support costs and Closely Associated Indirect (CAI) costs in context of RIIO-ED1 process and potential for outsource activity: includes all functions and directorates, Fixed and semi variable cost analysis, labour and pension cost and outsourcing benefit assessment			National Benchmarking				
Independent review of Single Licence vs. multi- licence advantages and disadvantages for RIIO-ED1 (KPMG)	National Benchmarking	National Benchmarking	National Benchmarking	National Benchmarking	National Benchmarking		

Benchmarking Activity	Reliability	Sustainability	Affordability	Customer	Safety	CSR	Other
Annual Employee Opinion Survey	Best Practice	Best Practice	Best Practice	Best Practice	Best Practice	Best Practice	Best Practice
IET (Institute of Engineering and Technology) Accreditation for our Graduate programme							Best Practice
Maintain our OHSAS18001 accreditation for Health and Safety Management					Best Practice		
Achievement of Guaraneteed Standards of Performance (GSOPs) :standards of customer service backed by a guarantee - customers receive a payment, either directly from us or through their electricity supplier, if we fail to meet these standards.	Best Practice			Best Practice			
Comparisons on smart grid technology with Australia Grid and New Zealand looking at LCT management particularly PV installations incl. network topology, operating practices and in particular dynamic operation of the systems. Ideas incorporated into our C2C project	International Benchmarking	International Benchmarking					
Reference client engagements with GB DNOs and US electricity and gas companies to understand the maturity of the Smart grid roadmap and intregration to Advance Meter Infrastructure (AMI)		International Benchmarking					
The Procurement Team engage in 'soft benchmarking' exercise with other international procurement companies shared learning of best practices and costs comparisons			International Benchmarking				