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16 September 2014

Dear Chris

Re. RUNNING THE DATA FROM DNOs' JUNE 2013 BUSINESS PLAN SUBMISSIONS THROUGH THE OFGEM SLOW-TRACK COST ASSESSMENT

As you may have seen, in our presentation to the Committee of the Authority we stated that we have run the data from DNOs' June 2013 business plan submissions through Ofgem's slow-track cost assessment. We would like to provide you with some further details in relation to this modelling task, including an explanation of the process we undertook and our results.

- Within Ofgem's slow-track modelling suite we replaced the slow-track BPDTs (i.e. data from the DNOs' March 2014 re-submissions) with the fast-track BPDTs (i.e. data from the DNOs' June 2013 submissions).
- We recognised that there are some pertinent differences (e.g. structural modifications) between the slow-track BPDTs and the fast-track BPDTs. Where necessary, we adjusted the structure of the fast-track BPDTs and corrected data links.
- We also updated hard-coded figures within the asset replacement model to ensure they were also based on data from the DNOs' June 2013 business plans. However, we did not adjust other hard-coded assumptions and data in the Ofgem models - for example we did not modify the qualitative adjustments made by Ofgem for its forecast analysis, since we do not have the available evidence or rationale with which to make these adjustments.
- Overall this process ensured, as far as possible, that the full suite of Ofgem's 116 spreadsheets picked up the right data from the BPDTs.
- Finally, we opened and re-ran all 116 spreadsheets. The combined efficiency scores from this analysis - as shown in Ofgem's "Scores and Allowances" spreadsheet, are presented in the table below.

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DNO	Efficiency scores, post UQ, incl. RPEs		
	FT costs in FT models	FT costs in ST models	ST costs in ST models
ENW	102.4% (2)	104.0% (1)	104.1% (1)
NPG	106.9% (4)	108.5% (3)	108.4% (3)
WPD	99.3% (1)	109.4% (4)	111.6% (5)
UKPN	113.7% (5)	113.1% (5)	111.8% (6)
SP	123.5% (6)	124.5% (6)	109.1% (4)
SSE	102.4% (3)	106.6% (2)	106.3% (2)

WPD's combined efficiency score when the data from DNOs' June 2013 business plans is run through Ofgem's slow-track modelling suite is 109.4%. This means that more than 80% of the change between WPD's fast-track and slow-track efficiency scores can be explained by the difference in Ofgem's modelling approach. Similarly, contrary to the implication of statements made by Ofgem in the Draft Determination, the changes in DNOs' plans between the fast-track decision and slow-track decision account for less than 20% of the change in WPD's efficiency score.

As mentioned above, we did not update Ofgem's qualitative adjustments in this first phase of our analysis. Given that Ofgem has not provided any reasoning for making these adjustments, it was not possible for us to estimate what adjustments Ofgem would have made if it had been faced with the data from DNOs' June 2013 business plans during the slow-track cost assessment. However, we have analysed what the efficiency scores would look like if we ran the data from DNOs' June 2013 business plans through Ofgem's slow-track modelling suite, and no qualitative adjustments were made.¹ The results of this are shown in the table below.

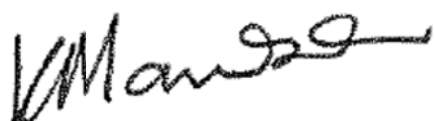
¹ We did not alter the qualitative adjustments within each of Ofgem's spreadsheets. Instead, we subtracted the total amount of qualitative adjustments made within the disaggregated model from the disaggregated modelled cost at the aggregate level.

DNO	Efficiency scores, post UQ, incl. RPEs		
	FT costs in FT models	FT costs in ST models	ST costs in ST models
ENW	102.4% (2)	104.0% (1)	104.1% (1)
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UKPN	113.7% (5)	113.7% (5)	111.8% (6)
SP	123.5% (6)	125.3% (6)	109.1% (4)
SSE	102.4% (3)	106.8% (2)	106.3% (2)

Removing the qualitative adjustments from the analysis does not materially affect the results. The efficiency score that is most affected is SP's and this is only by 0.8 percentage points.

We hope this letter provides you with sufficient detail on the analysis we carried out. However, if you have any questions or comments in relation to this, please do let us know. We are also writing to Dermot Nolan which draws on this analysis.

Yours sincerely



Keith Mawson
Head of Regulatory Finance and Systems