

Cost Assessment Meeting – 10/05/12

SSEPD – TOTEX Cost Assessment



Cost Assessment – Key Considerations

- **Consistent Cost Assessment**
 - TOTEX Cost Assessment/IQI Analysis
 - Strategies to Deal with Uncertainty
 - Whole Life Costs
- **Critical that frontier TOTEX performance is incentivised and rewarded**

Cost Assessment – TOTEX Cost Assessment

- DPCR5 rewarded Opex frontier performance
- DPCR5 Capex efficiencies not clearly rewarded;
 - For example no reward for efficient unit costs
- RIIO ED1 TOTEX efficiency assessment should;
 - Reward both (reset starting points)
 - Acknowledge for example innovation with DG investment

Cost Assessment – Strategies to Deal with Uncertainty

- Endeavour to obtain ex-ante allowances wherever possible
- Ensure Smart Networks drive efficient investments and offset increases in expenditure
- Smart Networks don't have to always equal more assets and expenditure
- Smart Metering DNO costs are large & uncertain but could be ex-ante
- Important that DNOs engage with Suppliers to ensure programme delivered efficiently
- Important DNOs are encouraged/rewarded for long term efficient behaviour

Cost Assessment – Whole Life Costs

- Key for both overhead lines and plant expenditure
- Refurbishment cycle for OHL can be cheaper than replacement and avoids stranding assets
- Refurbishment of plant can provide better value to customers
- New equipment does not always have same asset life as legacy assets
- Easier to factor in refurbishment to Real Options for investment decision making scenarios
- Critical that frontier TOTEX performance is incentivised and rewarded