Making a positive difference
for energy consumers

To electricity distribution network
operators, suppliers, consumers
and other interested parties

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**Consultation on the treatment of real price effects for RIIO-ED1 slow-track
electricity distribution network operators**

We would like your views on whether we should use a different method for reflecting real
price effects (RPEs) in the allowances for slow-track electricity distribution network
operators (DNOs) for RIIO-ED1.

DNOs' allowed revenues are indexed by the Retail Prices Index (RPI) as part of the price
control framework. We expect some of the costs faced by DNOs to change over the period
at a different rate than the RPI measure of economy-wide inflation. These differences in
cost changes are RPEs.

Our RIIO-ED1 draft determinations for the slow-track DNOs[1] proposed allowances for each
DNO.[2] These allowances include our forecast of the impact of RPEs. In the slow-track draft
determinations we recognised that there may be increased uncertainty in a forecast of RPEs
which casts doubt over the use of a fixed ex ante forecast for an eight-year control. We
said we would consult on whether there is a better way to deal with this uncertainty.

We're aware from early conversations with DNOs that they have some methodological
concerns with our calculation of RPEs in draft determinations. However, in this consultation
we are particularly seeking views on the best way to treat RPEs in the price control.

Uncertainty in RPE forecasts for RIIO-ED1

In our draft determinations we explained that our methodology for setting an ex ante RPE
forecast used input price indices to approximate the changes in costs DNOs will pay for
inputs they purchase. We weighted these indices into a composite RPE index that
represents a blend of the changes in costs across all inputs DNOs purchase.[3] The historical
real movement (ie relative to RPI) in this RPE index is shown in Figure 1.

This shows that the RPE index has diverged from the long run average real growth rate
(the gradient of the curve in Figure 1) in the recent past. From 2003-04 to 2007-08 the
real growth rate increased. Since 2008-09 it has continually fallen, indicating a reduction in
prices for DNOs' inputs. Based on this profile it is difficult to anticipate if and when RPEs will
return to positive growth and what the growth rate may be. This makes it difficult to set an

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[1] RIIO-ED1: Draft determinations for the slow-track electricity distribution companies (July 2014)
https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-
electricity-distribution-companies. This covers the eight-year RIIO-ED1 price control period beginning 1 April 2015.
[2] DNOs recover allowances through network charges to suppliers. In turn, suppliers may pass this charge on to
their customers as part of the electricity bill.
[3] More information on our approach to forecasting RPEs for the draft determinations can be found in Chapter 12 of
the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-
draft-determinations-consultation-slow-track-electricity-distribution-companies

eight-year forecast with confidence that it will not provide undue gains or losses to DNOs or consumers.

We have set ex ante forecasts for RPEs in previous price controls including DPCR5 and RIIO-T1 and GD1.[4] However, Figure 1 indicates that there is potentially a greater degree of uncertainty now than there was in the past.

Figure 1: historical real movement in RPE index
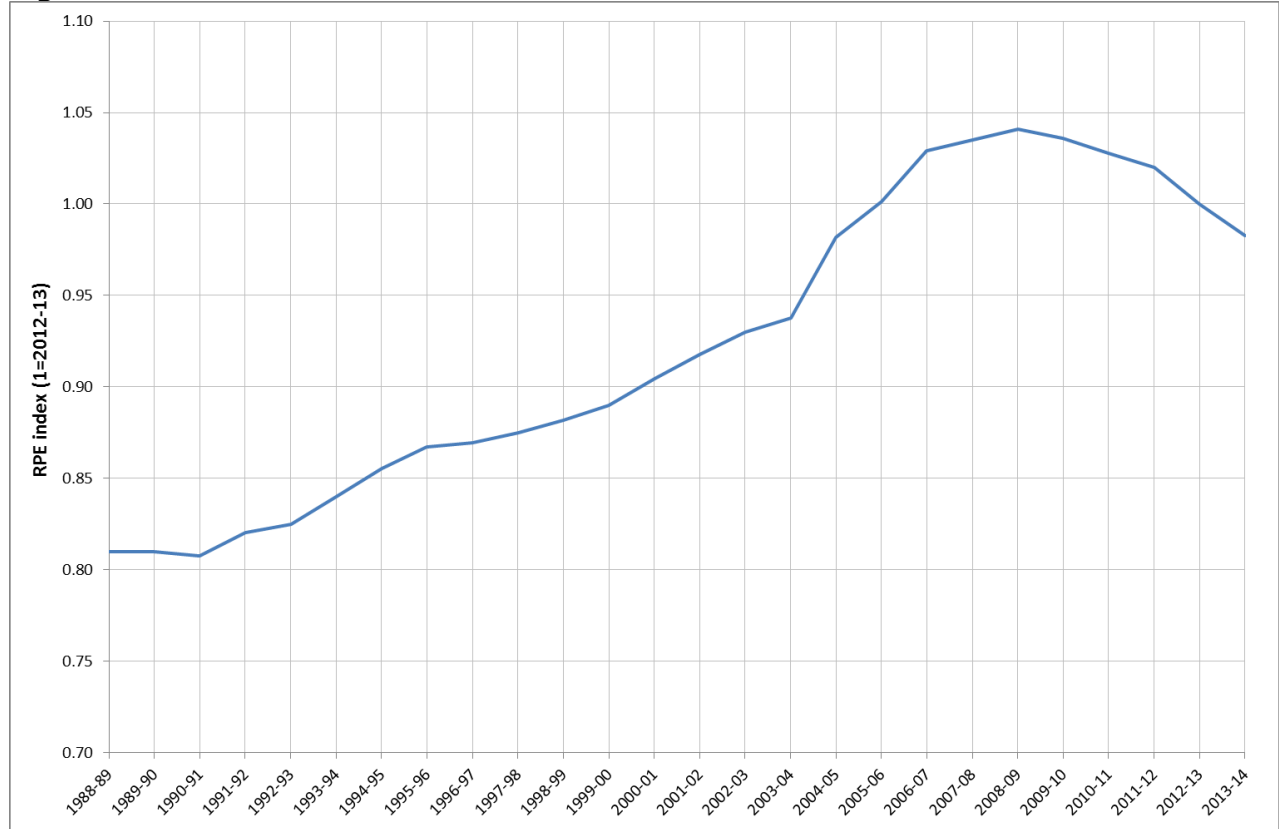
Consultation

In our RIIO-ED1 strategy decision[5] we repeated the RIIO principles guiding the use of uncertainty mechanisms.[6] We have used these principles to develop criteria against which to assess the need for an uncertainty mechanism for RPEs. The criteria are explained in more detail in Appendix 1.

We think the options for incorporating RPEs into the RIIO-ED1 price control fall into two broad categories:
- a fixed ex ante allowance which includes the forecast impact of RPEs, as proposed in draft determinations
- an uncertainty mechanism which applies some form of RPE indexation to allowances.

There are a number of options for the design and implementation of any RPE indexation. We discuss these in more detail in Appendix 2. At this stage we have an open mind as to which is the most appropriate approach. We recognise the importance of stable regulation

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[4] DPCR5 is the current electricity distribution price control, from 1 April 2010 to 31 March 2015. RIIO-T1 is the current electricity and gas transmission price control, from 1 April 2013 to 31 March 2021. RIIO-GD1 is the current gas distribution price control, from 1 April 2013 to 31 March 2021.
[5] Strategy decision for RIIO-ED1 (March 2013): https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview
[6] Uncertainty mechanisms allow changes to a network company's allowed revenues to be made in light of what happens during the price control period. We use the term "uncertainty mechanisms" to cover a range of mechanisms and provisions for adjusting the maximum revenue that a network company is allowed to collect.

and will only change approach at this stage in the process if there is a strong case for doing so.

We also think that if we were to index RPEs we would need to simplify the input price indices we use. We explain potential indices in Appendix 3.

We invite your views by asking a number of questions that are summarised below:

1. Do you think these criteria are appropriate and sufficient? If not, please explain why and justify any alternative assessment criteria.
2. Which of the RPE approaches (including the current approach of a fixed ex ante allowance, or any not explicitly discussed in this consultation) do you favour and why? Please justify with reference to the criteria.
3. If we use indexation with a deadband, at what value should the thresholds be set?
4. If we use indexation, do you think the proposed indices are appropriate? If not please justify alternatives.
5. Do you think that using a single mechanism covering all cost types is more appropriate than multiple mechanisms? If you think multiple mechanisms would be appropriate please justify which one you think should apply to each cost type.

Any change in our approach to RPEs will only affect slow-track DNOs. We will make our decision as part of the RIIO-ED1 slow-track final determinations.

Please send your response to James Goldsack (james.goldsack@ofgem.gov.uk) by 26 September 2014. We will also be holding a workshop at our London offices on 16 September 2014 at 10am. Please email James Goldsack by 11 September if you wish to attend.

Yours faithfully

Maxine Frerk
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Appendix 1: proposed criteria for assessing alternative uncertainty mechanisms

Questions:
1. Do you think these criteria are appropriate and sufficient? If not, please explain why and justify any alternative assessment criteria.

We expect DNOs to manage the uncertainty they face. The regulatory regime should not protect them from all forms of uncertainty. The use of uncertainty mechanisms should be limited to times when they will help deliver value for money for existing and future consumers, while protecting DNOs' ability to finance efficient delivery. Our strategy decision listed potential justifications and drawbacks of implementing uncertainty mechanisms. These are shown in Table 1.

Table 1: Potential justifications for and drawbacks of uncertainty mechanisms

Potential justifications	Potential drawbacks
To lower the cost of capital	Can undermine incentives for efficiency
Reduce financeability concerns	Increase complexity of regime
Reduce consumers' exposure to forecasting uncertainty at the price control review	May lead to volatility or unpredictability in network charges
Strike a fair balance of charges between current and future consumers	Risk of unintended consequences
Avoid resource costs of forecasting	Resource costs to develop and implement mechanism

We have used the justifications and drawbacks in Table 1 to construct criteria for assessing RPE uncertainty mechanisms. These criteria are described below. Our assessment of mechanisms against these criteria is in Appendix 2.

Criteria

Exposure to risk

In assessing alternative mechanisms for dealing with the impact of RPEs, consideration needs to be given to whether these mechanisms protect both DNOs and consumers against risk.

In certain circumstances if a DNO's exposure to risk reduces, then the cost of capital it faces to finance its activities can also fall.

Impact on incentives

Consumers benefit when DNOs are strongly incentivised to manage costs and invest efficiently. We recognise that at least part of the impact of RPEs can and should be managed by DNOs. Consideration will need to be given to whether an uncertainty mechanism undermines existing cost efficiency incentives.

Equally important is stakeholders' ability to see how a DNO performs against its incentives. For example, shareholders and the financial community should be able to judge whether DNOs are under or over performing. If part of this under or over performance is due to elements outside of DNOs' control then this may mask DNOs' true performance and reduce incentives on them to outperform their allowances.

Volatility and predictability in network charges

Volatility in network charges is not good for consumers. If suppliers pass on the volatility, it can make budgeting for the cost of electricity difficult. If the suppliers do not pass it on it may result in customers paying more if suppliers manage their risk exposure by building it

into energy bills.[7] Introducing an uncertainty mechanism should not unduly increase volatility. We note that the impact of volatility can be reduced by increasing predictability.

Balance of charges between current and future consumers

Ideally, input prices changes should be reflected in allowances and revenues when the DNOs are exposed to them. If the impact is delayed then future consumers will be paying the cost of services DNOs provided in previous years. Uncertainty mechanisms could either improve this balance or create a greater imbalance. The impact will depend on the design of the mechanism.

Complexity and unintended consequences

Introducing a mechanism that increases complexity could make the price control framework more difficult to understand. This may, to some extent, be mitigated if the operation of the mechanism is transparent, for instance if it is mechanistic and pre-defined.

Resource costs

We want to minimise the resource costs imposed by introducing a new uncertainty mechanism. Costs may be imposed on Ofgem and on DNOs in development, implementation and monitoring of an uncertainty mechanism.

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[7] For a further discussion of this see chapter 2 of our consultation on measures to mitigate network charging volatility arising from the price control settlement (April 2012): https://www.ofgem.gov.uk/publications-and-updates/mitigating-network-charging-volatility-arising-price-control-settlement.

Appendix 2: alternative RPE mechanisms and our initial assessment

Questions:
2. Which of the RPE approaches (including the current approach of a fixed ex ante allowance, or any not explicitly discussed in this consultation) do you favour and why? Please justify with reference to the criteria.
3. If we use indexation with a deadband, at what value should the thresholds be set?

The options we have identified for incorporating RPEs into the RIIO-ED1 price control fall into two broad categories:
*   a fixed ex ante allowance which includes the forecast impact of RPEs, as proposed in our draft determinations
*   an uncertainty mechanism which applies some form of RPE indexation to allowances.

Ex ante allowance

The RIIO-ED1 draft determinations for slow-track DNOs proposed an allowance for each DNO which included the forecast impact of RPEs. The RPE assumptions are fixed for the duration of RIIO-ED1.

We calculated the forecast for RPEs in three stages: [8]
*   We constructed an input price trend relative to RPI for a range of costs relevant to the inputs purchased by DNOs.
*   We weighted together these input price trends based on the assumed proportions of the inputs.
*   We converted these assumptions into monetary allowances. This is done by taking the RPE assumptions and multiplying them by the DNOs' allowances.

The majority of UK regulators we reviewed take a similar approach by including the forecast impact of RPEs in fixed ex ante allowances.[9]

Indexation

Alternatively, indexation would result in DNOs' allowances changing based on a chosen price index. Using the criteria in Appendix 1, we assess below the potential benefits and downsides of introducing RPE indexation relative to retaining the status quo. There are a number of options for the specific design and implementation of RPE indexation which are discussed later.

Initial assessment

Exposure to risk

Relative to setting an ex ante allowance, RPE indexation would give DNOs and consumers more protection against the risk that outturn prices are different to the forecast. It would reduce the possibility of windfall gains or losses to DNOs or consumers.

The benefit of reducing risk should not, however, be overstated. Under the status quo, DNOs and consumers are already, in part, protected from the risk of outturn prices being different from the forecast by the efficiency incentive mechanism. Under the efficiency incentive mechanism, any over or underspend relative to a DNO's allowance is shared

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[8] Our methodology is explained in detail in Chapter 12 of the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-electricity-distribution-companies
[9] We reviewed the approach taken in the most recent or current price control reviews by: Ofwat, Monitor, ORR, and the Northern Ireland Utility Regulator. We also reviewed two of the most recent relevant Competition Commission directions: Northern Ireland Electricity (2014) and Bristol Water (2010).

between the DNO and consumers. This means that if, for example, outturn prices are lower than forecast consumers may face reduced network charges.

We do not think that introducing RPE indexation would impact the cost of capital that we proposed in our draft determinations. Investors are mainly concerned with risk that varies in line with the market, or is market covariant. We do not have evidence to suggest that the market covariant component of RPE risk is significantly positive. We therefore estimate a neutral impact on the cost of equity. Indexation could reduce total risk faced by DNOs and be credit-enhancing which will lead to lower interest costs or higher borrowing capacity in due course. We will consider whether this has occurred when we set future price controls.

Impact on incentives

RPE indexation should not affect the economic incentive on DNOs to manage their costs and invest efficiently. It would only do so if DNOs can control the input price indices, which they are unlikely to. The choice of indices is discussed further in Appendix 3.

There may be a positive impact on reputational incentives relative to an ex ante allowance. We noted the importance of stakeholders' ability to see how a DNO performs against its incentives. RPE indexation may be expected, in theory, to improve transparency. If movements in the index accurately reflect changes in prices for inputs DNOs purchase, any over or under performance relative to its allowance will be because of actions taken by the DNO.

Volatility and predictability in network charges

An ex ante allowance sets the RPE assumptions for the eight year price control. RPE indexation would increase volatility, and reduce the predictability, of network charges relative to the status quo. However, a mechanism can be designed to help mitigate this downside.

The frequency of adjustments to DNOs' allowances is a key design variable of any RPE indexation. Delaying the impact of RPE indexation would allow stakeholders to more accurately predict the level of the revenue adjustment that will impact network charges. At the extreme, the impact could be lagged so that consumers face no impact during a price control period.

Balance of charges between current and future consumers

RPE indexation would be unlikely to materially affect this. However, the impact depends on the choice of mechanism. Any lag between the change in input prices and its impact on DNOs' allowances would naturally result in a delay to when consumers are exposed to the positive or negative impact of RPEs.

Complexity and unintended consequences

Relative to maintaining a fixed ex ante allowance, RPE indexation would be likely to add complexity to the price control regime, both in implementing it at this stage in the price control review and in monitoring its operation. Complexity may negatively impact the transparency of the price control regime. However, this impact could be minimised by making RPE indexation mechanistic. Any change in allowances could flow through pre-defined algebra in the licence and/or price control financial model.

Resource costs

The introduction of any indexation mechanism would impose resource costs on Ofgem and DNOs in its implementation. The level of ongoing resource costs during the price control should be relatively low if indexation operates mechanistically.

Options for RPE indexation

We have focussed on what we consider to be key design options in deriving different RPE indexation mechanisms. The key design options are:

• when the impact of RPE indexation hits allowances
• the application of a deadband
• the construction of the RPE index.

We discuss the timing and application of a deadband here. We discuss the construction of the index in Appendix 3.

Timing options

Table 2 outlines the different options for RPE indexation based on when the impact flows through to allowances.

Table 2: possible RPE indexation timing options

RPE indexation	Characteristics	Assessment
Option A: one-year lagged RPE index	• No ex ante allowance is provided for RPEs. • Prior to each regulatory year (beginning April) an allowance for the impact of RPEs is set based on a lagged index. The index for the preceding six months is used as the index for the coming regulatory year. • For example, in November 2016 the adjustment for 2017-18 is set based on the growth in the RPE index over the period April to September 2016 relative to the same period in 2015. • This is similar to the mechanism used in DPCR5 to set the RPI adjustment for DNOs.	• The one-year lag means the adjustment is based on an historical RPE index and not the actual RPE index for that regulatory year. Therefore protection for actual cost inflation is lower than under other options. The impact on the costs DNOs face in a particular year is not reflected in the RPE adjustment to the DNO's allowance in that year. • This option does not provide predictability of network charges as it only gives four months' visibility of the revenue adjustment to stakeholders. • A one-year lag is consistent with our approach to cost of debt indexation in RIIO-ED1.

RPE indexation	Characteristics	Assessment
Option B: two-year lagged RPE true up	• We could set an ex ante RPE allowance based on our best view forecast impact of RPEs. • The allowance will be trued up annually for outturn prices (as represented by the chosen RPE index). • A two-year lag is required for actual outturn information to be available. • For example, an ex ante RPE forecast allowance is included in 2015-16. In November 2016 we look back and see what the outturn RPE index was. The difference between the allowance value and the outturn value is calculated. This is applied as a true up in DNOs' allowances for 2017-18.	• Stakeholders will have greater visibility of the level of any RPE true up than under option A, ie they will know the magnitude of the adjustment up to 11 months before it happens. • The impact on balance of charges between current and future consumers is minimal as the majority of costs remain with current consumers over the two-year true up period. • While it is not necessary to do so, setting an ex ante allowance allows for true up adjustments to be made from the value of the allowance to the outturn value. This is likely to lead to adjustments of smaller magnitude than if no allowance is set. This is likely to reduce volatility. • A two-year lag is consistent with our approach to other mechanisms in RIIO-ED1.
Option C: true up at set window(s)	• We could set an ex ante RPE allowance based on our best view forecast impact of RPEs. • The allowance will be trued up for outturn prices (as represented by the chosen RPE index). • We set window(s) ex ante for any RPE true up assessment during RIIO-ED1. • This would include an additional true up at RIIO-ED2 price control review for years following the set window(s).	• Waiting to true up at set window(s) mitigates the impacts of charging volatility when compared to options A and B. • Due to the requirement to have a two-year gap (so that actual data available), this would provide limited additional benefit to option B. • While it is not necessary to do so, setting an ex ante allowance allows for true up adjustments to be made from the value of the allowance to the outturn value. This is likely to lead to adjustments of smaller magnitude than if no allowance is set. This is likely to reduce volatility.
Option D: true up at RIIO-ED2 price control review	• We could set an ex ante RPE allowance based on our best view forecast impact of RPEs. • The allowance will be trued up for outturn prices (as represented by the chosen RPE index). • RPE true up will be calculated at the RIIO-ED2 review and included within DNOs' RIIO-ED2 allowances. This could be smoothed over RIIO-ED2 to avoid any step change in allowances (either positive or negative).	• This creates the least volatility of all options. • However, DNOs and consumers have to wait longer for the adjustment and this creates a greater imbalance between existing and future consumers than under the other options.

Applying a deadband

A deadband could be applied to any of the options in Table 2 above. Doing this would mean that a change in the RPE index would not necessarily lead to a change in DNOs' allowances.

There are a number of specific design options, but we think a deadband would work as follows:

- thresholds are set above and below a forecast of the RPE index – this is done ex ante – except for option A where thresholds are set around the previous year's RPE index value
- if the index value falls within the deadband thresholds, no adjustment is made
- if the index value falls outside (above or below) the deadband thresholds, the allowance is adjusted for the difference between the threshold value and the actual value of the index.

The main benefit of a deadband is that it reduces the volatility of network charges created by indexation. The main drawbacks are that it creates additional complexity and also limits the reduction in risk created by RPE indexation.

Implementing RPE indexation

If we implement RPE indexation we will outline our approach in slow-track DNOs' final determinations in November 2014. Depending on the chosen RPE indexation mechanism, we may also need to make changes to the licence (including the price control financial handbook) and/or the price control financial model.

We will also need to consider interactions with the existing RIIO-ED1 framework. The main issue is that the introduction of RPE indexation may lead to RPE allowances no longer being a fixed part of DNOs' opening base revenue allowance. This impacts RIIO-ED1 policy in two areas:

- Under RIIO-ED1, the materiality thresholds for uncertainty mechanisms and the output incentive caps and collars are set as a percentage of DNOs' opening base revenue allowance. Indexation would introduce a variable element into DNOs' allowances. The DNOs' materiality thresholds and caps and collars would need to take account of this so that they operate in an equivalent manner. If an uncertainty mechanism is triggered we would need to consider the protection from RPEs that indexation provides in any assessment of actual and forecast expenditure.
- For the slow-track draft determinations we adjusted the break-even point in the Information Quality Incentive (IQI) matrix to 102.9 rather than 100. This was in part to account for the adjustment to allowances for RPEs being applied after the upper quartile but before the IQI.[10] Under RPE indexation, any allowance for RPEs is no longer fixed. Therefore, the break-even point would need adjusting to account for this.

Given these knock-on impacts on the price control, we recognise that we would only want to make changes to the framework at this stage in the process if there is a strong case for doing so.

In our draft determinations we fixed slow-track DNOs' opening base revenue allowance for 2015-16. Any change in approach to RPEs will not impact 2015-16 revenue. Any change between our draft and final determinations will be spread over the remaining years of RIIO-ED1.

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[10] For more information on the adjustment to the IQI matrix for draft determinations, see Chapter 2 of the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-electricity-distribution-companies

Appendix 3: selection of input price indices

The RPE assumptions for the slow-track draft determination were constructed using ten input price indices in addition to RPI.[11] If we decide to retain a fixed ex ante allowance for slow-track final determinations, we propose not changing the indices we use to construct the forecast (subject to responses to the draft determinations consultation).

If we decide to implement an indexation mechanism, we consider it necessary to reduce the number of indices we use. There is a risk that the published input price indices may change or be discontinued during the price control. This would mean that the indices used would need to be changed. The larger the number of indices used in creating an RPE index, the greater the complexity of the mechanism and the greater the risk of changes being needed.

In deciding which indices should be used to construct any potential RPE index, the following criteria were considered.

Availability of independent forecasts

Access to independent forecasts for the input price index allows DNOs, suppliers and consumers to better predict the future movement of the index and subsequent charges.

Relevance of indices

No combination of indices will provide a completely accurate picture of the movement in costs experienced by DNOs. As far as possible, the input price indices should represent the inputs DNOs purchase. In theory, by matching indices with DNO inputs at a very granular level it is possible to create an RPE index that closely reflects the price movements DNOs experience.

Index sample size and composition

If the sample size used to construct each input price index is too small or predominantly based on DNO activities, the companies' expenditure may influence the movement of the index. In this case, the DNOs may not be incentivised to manage costs.

Proposed indices

There is a balance to be struck between the number of indices and how closely the composite index represents DNOs' inputs. We consider the best balance is to use one index for each cost type. One measure of indices' relevance is the extent to which they have been proposed or used in the past. We have predominantly considered indices that have been used in: DPCR5, RIIO-ED1 slow-track draft determinations, RIIO-GD1 and T1, DNOs' submissions, and used by the Competition Commission (now the Competition and Markets Authority, CMA) in its Northern Ireland Electricity determination in March 2014.[12]

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[11] The indices we used are detailed in Chapter 12 of the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-electricity-distribution-companies

[12] Competition Commission Northern Ireland Electricity determination (March 2014): https://assets.digital.cabinet-office.gov.uk/media/535a5768ed915d0fdb000003/NIE_Final_determination.pdf

Table 3 shows those we consider may be the most appropriate for indexation.

Table 3: potential indices for indexation

Cost type	Index source	Index title/ reference	Forecast available
General labour	ONS	Average weekly earnings, including bonuses (K54V)	Published by HM Treasury (HMT) and Office of Budget Responsibility (OBR)
Specialist labour	BEAMA	Electrical labour	Published by BEAMA, can also use general labour forecast
Capex materials	BEAMA	Basic electrical equipment	Published by BEAMA
Opex materials	BCIS	FOCOS Resource Cost Index, infrastructure: materials	None directly relevant
Plant and equipment	ONS	Machinery and equipment: output PPI (K389)	None directly relevant
Transport	ONS	RPI (CHAW) adjusted down by 0.4 per cent per year[13]	Published by HMT and OBR
Other			

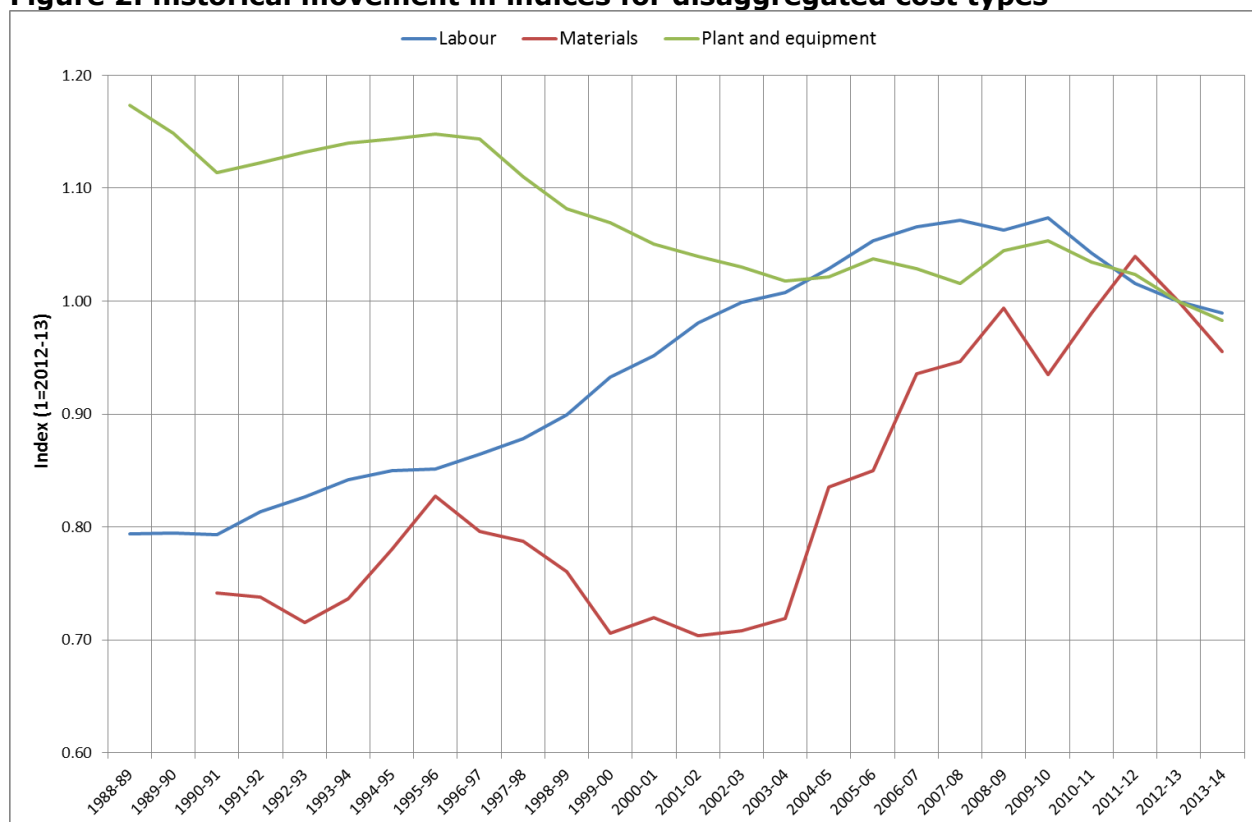**Application of indexation to different cost types**

It is possible to apply different mechanisms to different cost types. This has some clear benefits if different cost types have different levels of forecasting uncertainty, controllability, or materiality. Historically, labour costs have been considered more predictable and controllable than, for example, materials costs. In its report for DPCR5, CEPA suggested that indexation should only be applied to materials costs because of their volatility, materiality and relative uncontrollability.[14]

Figure 2 shows that the decline in the RPE index used in draft determinations is predominantly driven by reductions in the input price indices for labour. This recent trend does not follow the long term trend in real movements in the index as seen between 1991-92 and 2004-05. It is not clear whether labour costs will be as predictable and controllable for RIIO-ED1 as they have been assumed to be in the past.

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[13] For draft determinations we applied an adjustment to RPI to take account of a change in the way it is calculated from 2010 onwards. Details of the adjustment can be found in Chapter 12 of the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-electricity-distribution-companies

[14] CEPA's report on volume and input price uncertainty for DPCR5: https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-methodology-and-initial-results-paper

Figure 2: historical movement in indices for disaggregated cost types

Treating costs differently is inconsistent with the totex approach under RIIO. We treat different costs in the same way to ensure consistent efficiency incentives and to avoid preferential treatment for particular activities or DNOs. This also limits boundary issues between cost types and makes consistent reporting easier. If we were to use indexation our current view is that using a single mechanism is most appropriate.

If applied to all cost types, we would weight together these indices using the same approach as for draft determinations.[15] If indexation were only applied to particular cost types, we would use the corresponding input price indices identified in Table 3, weighted if necessary.

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[15] The relative proportions of the different cost types we used in the draft determinations can be found in Chapter 12 of the expenditure assessment supplementary annex: https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-consultation-slow-track-electricity-distribution-companies