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Our ref

Your ref

Date

24 July 2017

Dear Ian,

Statutory Consultation on changes to the PDAM RIGs Guidance

WPD welcomes the opportunity to respond to the above consultation, issued by Ofgem on 27 June 2017. WPD has been proactive in driving developments in the RIGs guidance and has had considerable input in discussions with Ofgem prior to the issue of this consultation.

We recognise the progress Ofgem has made to develop these RIGs in a short timescale and welcome the simplification and removal of requirements to report information that is no longer needed. We also welcome the clarity of requirements and submissions with the inclusion of table 1.1 in the guidance.

In terms of detailed feedback, our actuarial advisers have highlighted that the inputs in the 'Para 6.20 adjustments' worksheet of the RIGS template only allow the entry of one pre-retirement discount rate and one post-retirement discount rate in relation to the previous valuation. The format of the worksheet template therefore only seems to cater for valuations that use discount rates that do not vary by term. We attach a file which includes an updated 'Para 6.20 adjustments' worksheet, which has been amended by our actuarial advisers. The amended spreadsheet sets out the pre- and post- retirement discount rates for each of the three years since the last valuation, which vary by term. This more accurately reflects the approach that was adopted at the previous valuation and leads to the adjusted investment returns for the Pre and Post Cut-off Date sub funds being calculated more appropriately than the current template allows.

We have the following additional points of detail:

- The formatting in rows 69:73 of table P1.5 appears incorrect for years 2018-19 to 2026-27, with some rows which require inputs currently blacked out.
- It would be helpful to have it clearly signposted at the top of PDAM Tables P1.5 and P1.6 that all values should be in 2012/13 prices;

- Para. 3.2 of the Handbook states that the allowances should be in 2012/13 prices but there is no mechanism to convert the 2016 Established Deficit (PSED) in Row 156 of P1.1 into 2012/13 prices before it flows into Cell C15 on P1.6. To ensure a consistent approach across network operators, it would be helpful to include this conversion in the tables.
- Further, it would be helpful to include an optional mechanism in the worksheet to calculate a flat PPH using the Vrr value and an input for PHDRy. The mechanism would work in the same way as the PBAPA calculation. The outputs could then feed into the Illustrative test for PPHy in the Vrr sheet if the flat profiling option is selected.

We note that there may be a need to refine the tables, especially P1.5 and P1.6, once network operators have used the tables to complete the 2017 PDAM submissions, and we may provide further feedback after the PDAM submission.

We hope that you find this response helpful. In the meantime please feel free to contact us if there is anything further we can do to assist.

Yours sincerely



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Regulatory Finance Manager