

# RIO2 Cost Assessment Working Group (CAWG) 26/06/18

# Lessons from RII0-GD1

- About **timeline and communication**
  1. We **heard** concerns about timelines including the need to see **models through development** and need to **communicate early** changes to our minded positions
    - **We will:** be realistic and communicate timelines when we can
- More specifically on **Cost Assessment, we heard:**
  2. Despite the data limitations, expectations of **improved Cost Assessment** based on larger dataset (RIIO1 + extended/updated forecasts)
  3. Mixing **top down/bottom up** is appropriate, but
    - a. Weights might need review
    - b. Bottom up changes should be reflected top down
    - c. Avoid “cherry picking” with use of UQ in disaggregated modelling
  4. Cost **allocations**
    - a. Are not always straightforward (e.g. both opex and capex)
    - b. Might depend on business model (e.g. work management)
    - c. Might evolve over time (e.g. IT)

# Main bilateral takeaways 2

5. Some **cost categories** might be combined (e.g. emergency and repair)
6. Some **drivers** need to be reviewed (e.g. MEAV)
7. Separate **assessments/other techniques** could be considered:
  - a. When benchmarking is inappropriate/not viable (e.g. IS)
  - b. To account for networks specificities
8. **Repex** likely to be a **focus area** and needs to consider
  - a. Different workload mixes
  - b. Changing contractual conditions
  - c. Possible inclusion of risk management for a better mapping to outputs
9. We could enhance **differentiation across GDNs** – e.g. in ongoing efficiency assumptions and use of regional factors
10. Review of **regional factors** (e.g. sparsity) and **RPEs** (e.g. more industry specific)
11. Could we involve **quality** in regressions

**We will:** work through these points in the development of our approach to cost assessment

# Other points to consider

*Presented in order to give an insight into some of the other questions (not explicitly captured in ToR or bilateral summary) that we are looking at internally and could explore further. This is not a definitive list.*

1. Incentive properties of GD1 cost drivers and what alternatives could we use
2. Use of historical and forecast data
3. Other benchmarking techniques (DEA, SFA, etc)
4. Application of analysis to allowances
5. **Business plan development**

# Questions

1. Are there any other areas/ questions that we should have on our radar?
2. Have you done any research or thinking on these areas that you can share with us or present in a future CAWG?
3. Are there any specific areas you think may have a cross sector overlap – with transmission or Elec?
4. How would you prioritise the list, particularly in terms of discussing in the CAWG?