NON REGRESSED ACTIVITIES

14th November 2018 - CAWG

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Non Regressed activities

- Cost areas were identified that were not suitable for econometric modelling (13 Areas)

- These were excluded on the following justification
  - Disproportionally affecting networks cost base
  - Company specific
  - Irregular or bespoke
  - Known external costs (Xoserve)
  - Difficult to find appropriate cost driver in bottom up
  - Atypical costs

- BUT this depended on the modelling approach i.e. asset integrity capex non regressed in bottom up but included in top down

- All non regressed items included in top-down modelling except Xoserve and SIU's

- Non regressed items assessed on a technical or engineering assessment

2

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Non regressed activities

- Other direct activities
- Shrinkage
- Xoserve
- SIU's
- Holder decommissioning
- Holder Land remediation
- Loss of metering
- Tier 2/3 survey costs
- MOB's surveys
- Interruptible contracts
- Smart metering set up costs
- Asset integrity Capex
- Streetworks

Table 1.1 – Initial proposals supporting document – cost efficiency

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Non regressed assessment process

- Non regressed activity category segregated and removed from regression data

- Costs and workload compared across GDNs (where applicable) – benchmark analysis

- If available historical data reviewed or extra panel data requested

- GDNs provided assumptions and third party evidence or survey data

- Ofgem contacted relevant third parties for input (example streetworks – DfT) and used consultants to review

- Ofgem expected range of options for the cost solution (example LTS pipelines) before

- Some costs where uncertain were added in uncertainty mechanisms – Above BAU Streetworks

- Efficiently assessed costs added back post regression

4

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Further discussion and work required…..

- Any new costs that we would class as Non regressed?
  - Whole systems solutions/Future of energy
  - Company specific costs or project specific

- Are any of these items one off in RIIO-GD1?
  - Smart metering set up costs

- Could any of these items be included in regressions? And what cost drivers could be used?

- Do we need further discussion on uncertainty mechanisms?

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