

Consultation

RIIO-2 Draft Determinations – Wales & West Utilities

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Our aim for the RIIO-2 price controls is to ensure energy consumers across GB get better value, better quality of service and environmentally sustainable outcomes from their networks.

In May 2019, we set out the framework for the price controls in our Sector Specific Methodology Decisions. In December 2019, Transmission and Gas Distribution network companies and the Electricity System Operator (ESO) submitted their Business Plans to Ofgem setting out proposed expenditure for RIIO-2. We have now assessed these plans. This document and others published alongside it, set out our Draft Determinations for company allowances under the RIIO-2 price controls, for consultation. We are seeking responses to the questions posed in these documents by 4 September 2020.

Following consideration of responses, we will make our Final Determinations at the end of the year. This document outlines the scope, purpose and consultation questions and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in completely or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential and if possible, put the confidential material in separate appendices to your response.

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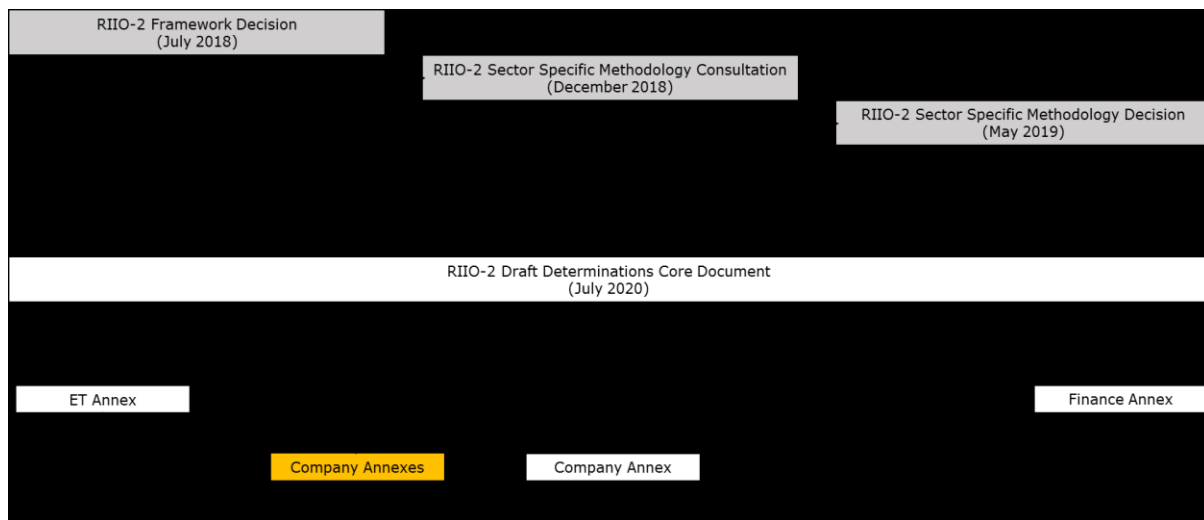
1. Introduction and overall package

Purpose of this document

- 1.1 This document sets out our Draft Determinations and consultation positions for the gas distribution (GD) price control (RIIO-GD2) for the areas that are specific to WWU. This price control will cover the five-year period from 1 April 2021 to 31 March 2026. All figures are in 2018/19 prices except where otherwise stated.
- 1.2 Setting Allowed Revenue is underpinned by a large set of proposals across output design, cost assessment, and finance. The purpose of this document is to focus on WWU and:
- support stakeholders in navigating the individual proposals across the suite of RIIO-2 Draft Determinations Documents that make up its overall allowed revenue
 - set out any proposals that are specific to WWU, including:
 - baseline cost allowances
 - parameters for common outputs
 - bespoke Output Delivery Incentives (ODIs)¹
 - bespoke Price Control Deliverables (PCDs)
 - consumer Value Propositions (CVPs)
 - the Uncertainty Mechanisms (UMs)
 - the level of Network Innovation Allowance (NIA).
- 1.3 This document is intended to be read alongside the RIIO-2 Draft Determinations Core Document (Core Document) and RIIO-2 Draft Determinations - Gas Distribution Sector Annex (GD Annex). Figure 1 sets out where you can find information about other areas of our RIIO-2 Draft Determinations.

¹ ODIs can be reputational (ODI-R) or financial (ODI-F).

Figure 1: RIIO-2 Draft Determinations documents map



What makes up WWU’s Draft Determinations (the RIIO-2 building blocks)?

- 1.4 We have structured our price control consultation positions around a series of building blocks. The building blocks reflect how we propose to set companies’ Allowed Revenue. Table 1 provides stakeholders with a map to where to find the proposals that make up the Draft Determinations.

Table 1: RIIO-2 Building Blocks

Building Block		Where to find the Draft Determinations	
		Approach/Methodology	Company specific parameters
Base Revenue (BR)	Legacy items from previous controls including RIIO-1 RAV and close-out adjustments	Finance Annex: Chapter 11	GD Annex: Chapter 2
	Common ODIs, PCDs and LOs	Core Document: Chapter 4	GD Annex: Chapter 2
	Bespoke ODIs, PCDs and LOs	Core Document: Chapter 4	Chapter 2
	Baseline Totex Allowance	Core Document: Chapter 5	GD Annex: Chapter 3
	Capitalisation Rate (Fast/Slow Money)	Finance Annex: Chapter 11	Finance Annex: Chapter 11 Table 40
	WACC Allowance	Core Document: Chapter 6 Finance Annex: Chapter 4	Finance Annex: Chapter 4 Table 31
	Depreciation Allowance	Depreciation Annex	Finance Annex: Chapter 10 Table 39
	Tax Allowance	Finance Annex: Chapter 7	Finance Annex: Chapter 7
	Innovation	Core Document: Chapter 8	Chapter 5
	Cyber and Physical security	Core Document: Chapter 7	Cyber resilience – Confidential annexes Physical security – GD Annex: Chapter 2 ²
Adjustments to BR for company performance	Totex Incentive Mechanism (TIM)	Core Document: Chapter 10	Chapter 1
	Network Asset Risk Metric (NARM)	NARM Annex: Appendix 3	NARM Annex Chapter 2
	BPI Reward/Penalty	Core Document: Chapter 10	Chapter 1
	Return Adjustment Mechanism (RAM)	Finance Annex: Chapter 8	Finance Annex: Chapter 8
Rules to adjust BR for other factors	Uncertainty Mechanisms (including Pass-through)	Core Document: Chapter 7	Chapter 3
	Policy Indexation (Real Price Effects, ongoing efficiency)	Core Document: Chapter 5	Core Document: Chapter 5
	Other Indexation (Regulatory asset value, Cost of equity, Cost of debt)	Finance Annex: Chapter 9	Finance Annex: Chapter 9
	Whole System Mechanisms	Core Document: Chapter 8	Core Document: Chapter 8
	Pensions	Finance Annex: Chapter 11	Finance Annex: Chapter 11
	Directly Remunerated Services (DRS)	Finance Annex: Chapter 11	Finance Annex: Chapter 11

² Cadent and SGN only

An overview of WWU's RIIO-2 price control

- 1.5 A summary of our proposed baseline Totex for WWU is presented in Table 2. This reflects our view of efficient costs including ongoing efficiency over RIIO-GD2. For further details of any values, please refer to Chapter 3.³

Table 2: WWU submitted and allowed baseline Totex⁴ (£m, 2018/19)

Cost area	WWU Submitted Totex (£m)	Ofgem Proposed Totex (£m)	Difference (%)
Direct Opex	329	300	-9%
Indirect Opex	156	142	-9%
Capex	256	208	-19%
Repex	442	348	-21%
Totex	1,182	997	-16%

- 1.6 The common outputs that we are proposing for all companies in RIIO-GD2 are set out in Table 3 with further details in the GD Annex. Table 3 also sets out the bespoke outputs that we have proposed to include in our Draft Determinations (further details are contained within Chapter 2).

³ Where the source document is not stated, we are referring to this document (Draft Determinations - WWU Annex, abbreviated to WWU Annex).

⁴ Baseline Totex refers to total controllable costs (excludes BPI, RPEs, pass-through costs, and includes ongoing efficiency).

Table 3: Summary of proposed common and bespoke outputs applicable to WWU

Output name	Output type	Further detail
Common outputs across GD Sector		
Meeting the needs of consumers and network users		
Consumer vulnerability minimum standards	LO	Not covered (No change since our SSMD ⁵)
Consumer vulnerability reputational incentive	ODI-R	GD Annex
Consumer vulnerability and carbon monoxide safety use-it-or-lose-it allowance	PCD	GD Annex
Fuel Poor Network Extension Scheme	PCD	GD Annex, this annex Chapter 2
Customer satisfaction survey	ODI-F	GD Annex
Complaints metric	ODI-F	GD Annex
Guaranteed Standards of Performance (GSOPs)	LO	GD Annex
Emergency response time	LO	GD Annex
Unplanned interruptions	ODI-F	GD Annex, this annex Chapter 2
Appointments for restoring supply to appliances	ODI-R	GD Annex
Digitalisation Strategy and Action Plan	LO	Core Document
Data Best Practice	LO	Core Document
Deliver an environmentally sustainable network		
Shrinkage and environmental emissions	ODI-F and ODI-R	GD Annex
Environmental action plan and annual environment report	LO and ODI-R	GD Annex
Business carbon footprint reporting	ODI-R	Core Document
Maintain a safe and resilient network		
Repex - tier 1 mains replacement	PCD	GD Annex, this annex Chapter 2
Repex - tier 1 services	PCD	GD Annex, this annex Chapter 2
Gas holder demolitions	PCD	GD Annex
Network Asset Risk Metric	PCD and ODI-F	GD Annex
Cyber resilience Operational Technology (OT)	PCD	Confidential annex
Cyber resilience Information technology (IT)	PCD	Confidential annex
Capital projects	PCD	GD Annex, this annex Chapter 2
Outputs bespoke to WWU		
None	None	Not applicable

⁵ All references to 'our SSMD' in this GD Annex refer to the RIIO-GD2 Sector Decision Annex to the RIIO-2 Sector Specific Methodology Decision, <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

1.7 We set out the UMs that we are proposing for WWU in Table 4 (further detail is in Chapter 4).

Table 4: Summary of proposed common and bespoke uncertainty mechanisms applicable to WWU

UM Name	UM type	In baseline Totex ⁶	Further detail
Common UMs across GD Sector			
Pension deficit charge adjustment	Pass-through	No	Not covered (no change since our SSMD)
Third party damage and water ingress	Pass-through	No	GD Annex
Miscellaneous pass-through	Pass-through	No	Not covered (no change since our SSMD)
Gas Transporters share of Xoserve costs	Pass-through	No	Not covered (no change since our SSMD)
Repex – Tier 2A iron mains	Volume driver	Yes (baseline forecast)	GD Annex
Repex – HSE policy changes	Re-opener	No	GD Annex
Repex - Tier 1 iron stubs	Re-opener	No	GD Annex
Diversions	Re-opener	Partial (separate from re-opener)	GD Annex
Multiple occupancy buildings (MOBs) safety	Re-opener	No	GD Annex
Heat policy	Re-opener	No	GD Annex
Domestic connections	Volume driver	Yes (baseline forecast)	GD Annex
New large load	Re-opener	No	GD Annex
Smart meter rollout costs	Re-opener	Partial (separate from re-opener)	GD Annex
Specified streetworks	Re-opener	Partial (separate from re-opener)	GD Annex
Fuel Poor Network Extension Scheme (FPNES)	Volume driver	Yes (baseline forecast)	GD Annex
Common UMs across all sectors			
Bad Debt	Pass-through	No	Finance Annex ⁷
Business Rates	Pass-through	No	Not covered (no change since our SSMD)
Ofgem Licence Fee	Pass-through	No	Not covered (no change since our SSMD)
Coordinated Adjustment Mechanism	Re-opener	No	Core Document

⁶ Any costs not included in baseline Totex, but included in allowed revenue, are captured in the licence model.

⁷ RIIO-2 Draft Determinations – Regulatory Finance Annex (abbreviated to Finance Annex)

UM Name	UM type	In baseline Totex ⁶	Further detail
Cyber Resilience OT ⁸	UIOLI allowance and re-opener	Partial (separate from re-opener)	Core Document
Cyber Resilience IT ⁶	Re-opener	Partial (separate from re-opener)	Core Document
Non-operational IT and Telecoms Capex	Re-opener	Partial (separate from re-opener)	Core Document
Pensions (pension scheme established deficits)	Re-opener	No	Not covered (no change since our SSMD)
Physical Security (PSUP)	Re-opener	Partial (separate from re-opener)	Core Document
Tax Review	Re-opener	No	Finance Annex
Net Zero	Re-opener	No	Core Document
Cost of debt indexation	Indexation	No	Finance Annex
Cost of equity indexation	Indexation	No	Finance Annex
Inflation Indexation of RAV and Allowed Return	Indexation	No	Finance Annex
Real Price Effects	Indexation	No	Core Document

1.8 Table 5 sets out our NIA proposals for WWU (further details can be found in Chapter 5). Our general approach to the NIA is set out in the Core Document.

Table 5: Summary of proposed Network Innovation Allowance applicable to WWU

Consultation position
£13.3m, conditional on an improved industry-led reporting framework.

1.9 Table 6 summarises our assessment of WWU across the four stages of the Business Plan Incentive (BPI), and sets out where you can find additional information.

⁸ Previously listed in our SSMD as Cyber resilience and Business IT re-openers.

Table 6: Summary of proposed WWU BPI performance

BPI Stage	Outcome	Further detail
1	Pass	Core Document for approach to assessment and rationale.
2	No reward	Core Document for approach to assessment. Chapter 2 of this document for views on specific proposals.
3	No penalty	Core Document for approach to assessment. Chapter 3 of this document for specific views on WWU's performance.
4	No reward	Core Document for approach to assessment. Chapter 3 of this document for specific views on WWU's performance.
Overall	No reward or penalty	Core Document

1.10 Table 7 summarises our proposed Totex Incentive Mechanism (TIM) rate for WWU. Further details can be found in the Core Document.

Table 7: Summary of proposed TIM rate for WWU

Network	TIM rate (%)
WWU	49.6%

1.11 Table 8 summarises the financing arrangements that we are proposing to apply to WWU and the GD sector as a whole. Please refer to the Finance Annex for more detail on these areas.

Table 8: Summary of financing arrangements applicable to WWU

GD Sector Finance Parameter	WWU rate	Source
Notional gearing	60%	See Table 31 in the Finance Annex
Cost of Equity	4.20%	
Expected outperformance	0.25%	
Allowed return on equity	3.95%	
Allowed return on debt	1.74%	
Allowed return on capital	2.63%	
Notional gearing	60%	

2. Setting outputs

Introduction

2.1 In this chapter we cover two main areas:

- Firstly, we set out the proposed WWU-specific parameters for common GD sector outputs.
- Secondly, we set out our views on the bespoke outputs that WWU proposed in its Business Plan.

Common Outputs

2.2 We set out our consultation position for the WWU-specific parameters in the following tables for the common outputs for RIIO-GD2, excluding where we specify parameters in Chapter 2 of the GD Annex.

2.3 We set out more detail on the common outputs in the GD Annex, including the broader consultation positions and our rationale. For the cost assessment related to outputs, please see Chapter 3.

Table 9: Summary – WWU parameters for common outputs

Output name	Output type	Parameters
Fuel Poor Network Extension Scheme (FPNES)	ODI-R and Volume driver	Target and cap for number of connections.
Unplanned interruptions	ODI-F	Minimum performance level, excessive deterioration level and highest modelled number of major incidents.
NARM	PCD and ODI-F	Baseline Network Risk Output - total that a network company has been funded to deliver through its RIIO-GD2 baseline, excluding Network Risk Outputs associated with other mechanisms or PCDs.
Repex - Tier 1 mains replacement	PCD	Baseline Target Workloads - number of kilometres of Tier 1 mains to be decommissioned. Baseline Cost Allowances for Tier 1 mains replacement.
Repex - Tier 1 services	PCD	Baseline Target Workloads - number of service interventions associated with Tier 1 mains replacement. Baseline Cost Allowances for Tier 1 services.
Capital Projects	PCD	List of projects included and the network where they apply.

Common outputs consultation question

WWUQ1. What are your views on the values for the common output parameters we have set out in the WWU Annex?

Fuel Poor Network Extension Scheme

Table 10: Consultation position – FPNES ODI-R targets and volume driver cap

Network	ODI-R Target	Volume driver cap
	<i>Number of connections - RIIO-GD2 total</i>	<i>Number of connections - RIIO-GD2 maximum</i>
WWU	2,500	7,870

Unplanned Interruptions

Table 11: Consultation position - ODI-F Minimum performance and Excessive Deterioration levels and highest modelled major incidents

Network	Minimum performance Level	Excessive Deterioration level	Highest modelled major incidents
	<i>Hours per year</i>	<i>Hours per year</i>	<i>Number per year</i>
WWU	14	19	4

2.4 The Monte Carlo model used to determine the values is included in the Unplanned Interruptions Model Annex.

NARM PCD and ODI-F

2.5 This table summarises WWU's NARM targets. Please refer to the NARM Annex for our consultation position and rationale.

Table 12: Summary - NARM Baseline Network Risk Outputs

Network	Baseline Network Risk Outputs
Unit	Risk pound (£m) ⁹
WWU	17.2

Tier 1 mains replacement PCD

Table 13: Consultation position - Tier 1 mains decommissioned Baseline Target Workloads (RIIO-GD2 total, km)

WWU	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Target Workload
Workload Activities	km	km	km	km	km	km
Cast Iron and Spun Iron: Low-Pressure and Medium Pressure						
a. <=3"	5.8	2.8	3.0	2.0	5.1	18.8
b. 4"-5"	110.5	99.1	99.8	95.0	98.6	502.9
c. 6"-7"	59.3	61.5	58.9	64.9	59.4	304.0
d. 8"	26.4	30.8	43.5	23.0	42.6	166.2
Ductile Iron: Low-Pressure						
a. <=3"	0.01	0.01	0.00	0.16	0.03	0.21
b. 4"-5"	65.7	60.3	53.4	61.0	54.4	294.9
c. 6"-7"	31.9	39.0	40.1	44.1	35.1	190.3
d. 8"	14.1	20.2	15.1	23.5	17.8	90.7
Total - all diameters and materials	313.6	313.8	313.8	313.8	313.0	1,568.0

⁹ The unit used to denote Monetised Risk values. R£ is used to differentiate from financial monetary values.

Table 14: Consultation position - Tier 1 mains Baseline Allowance (RIIO-GD2 total)

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Allowance
<i>Baseline Allowance</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Tier 1 mains Baseline Allowance						
WWU	33.4	34.9	34.7	33.1	34.4	170.5

Tier 1 services PCD

Table 15: Consultation position - Tier 1 service interventions Baseline Target Workloads (RIIO-GD2 total, no. of services)

WWU	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Target Workloads
<i>Workload Activities</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Tier 1 service interventions						
Relay - domestic	12,726	10,699	10,141	11,369	10,809	55,744
Test and transfer - domestic	12,726	10,699	10,141	11,369	10,809	55,744
Relay - non-domestic	812	683	647	726	690	3,558
Test and transfer - non-domestic	812	683	647	726	690	3,558
Totals	27,076	22,763	21,577	24,189	22,998	118,603

Table 16: Consultation position - Tier 1 services Baseline Allowance (RIIO-GD2 total, £m 2018/19)

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Allowance
<i>Baseline allowance</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Tier 1 services baseline allowance						
WWU	10.8	9.6	8.9	9.5	9.3	48.2

Capital Projects PCD

Table 17: Consultation position – WWU project list for the Capital projects PCD

Network	Project	Deliverable/output	Proposed costs (£m)
WWU	HN039 LTS Pipeline Replacement	As per Engineering Justification Paper (EJP)	13.19

Bespoke Output Proposals

- 2.6 For RIIO-2, we invited companies to propose additional bespoke outputs as part of their Business Plans reflecting the needs of and feedback from their stakeholders and consumers.
- 2.7 We requested that companies support bespoke proposals with robust justification to ensure that the potential consumer benefits were reasonable, given the additional cost and/or regulatory complexity introduced into the price controls. In making our draft decisions for RIIO-2 outputs, we have sought to strike a balance between these trade-offs for each bespoke proposal. You can find the background and our assessment approach in our Core Document.
- 2.8 In this section, we provide our views on all of the bespoke outputs that WWU proposed in its Business Plan, and any that we propose to apply to WWU.
- 2.9 For full details on the bespoke proposals, refer to WWU's Business Plan.

Bespoke Output Delivery Incentives

- 2.10 The table below summarises the bespoke ODI proposals that WWU submitted as part of its Business Plan and outlines our consultation position.

Table 18: WWU's bespoke ODI proposals

Output name	Consultation position
Bespoke outputs we propose to accept	
Connections voluntary GSoPs: Voluntary payment to ensure customers requesting work excluded from the Connections GSoPs are compensated for poor service. This will include isolations, diversions and development sites.	Accept: We are proposing to merge this proposal with the common connections quotations GSoPs. See additional detail in Chapter 2 of the GD Annex under 'GSoPs'.
Bespoke outputs we propose to reject	
British Standard for Inclusive Service Provision BS 18477: Commitment to maintain BS 18477 Inclusive Service Provision accreditation.	Reject: We welcome the proposal to maintain certification but think WWU is likely to achieve this without an ODI. It is part of its vulnerability strategy, and can be funded through the consumer vulnerability and carbon monoxide (CO) safety use-it-or-lose-it allowance. There is also insufficient evidence of stretch beyond business as usual (BAU) as WWU achieved this standard during RIIO-GD1.
ICS Service mark accreditation: Commitment to maintain the Institute of Customer Service (ICS) Service Mark accreditation.	Reject: We welcome the proposal to maintain certification but think WWU is likely to achieve this without an ODI. There is also insufficient evidence of stretch beyond BAU as WWU achieved this standard during RIIO-GD1. We have kept the associated costs in our proposed Totex baseline allowance for WWU to maintain their certification.
Theft of Gas: A mechanism to incentivise WWU to do more than the minimum expected using industry and public data to tackle theft of gas.	Reject: We propose to incentivise these activities across all gas distribution networks (GDNs) through the TIM. Refer to the section 'Costs related to gas theft' in Chapter 4 of our GD Annex for details on our proposed new approach for the industry.
Enhanced GSOP: Continue to pay double the statutory GSOP payments.	Reject: We are already proposing to double GSOP payments for RIIO-GD2, in place of this proposal.
Voluntary interruptions payments: A commitment to pay customers who experience a planned or unplanned interruption lasting more than 12 hours from gas at the appliances £25 in addition to any GSOP payments.	Reject: Due to sufficient commonality with other network company proposals, we propose to address 'purge and relight' bespoke measures with a common ODI-R for appointment slots. WWU may want to retain the proposed monitoring as a separate key performance indicator (KPI) for its stakeholders. We support WWU sourcing any funds required from company shareholders. See additional detail in Chapter 2 of our GD Annex.

Bespoke ODI consultation questions

WWUQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

Bespoke Price Control Deliverables

2.11 The table below summarises the bespoke PCD proposals that WWU submitted as part of its Business Plan and outlines our consultation position.

Table 19: WWU's bespoke PCD proposals

Output name	Consultation position
Bespoke outputs we propose to reject	
Land Remediation: Proposed £6.8m for the management of 70 former gas works sites to mitigate negative impacts on the communities around these sites.	Reject: Given the low risk of non-delivery, we do not consider it necessary to establish a bespoke PCD. We propose to provide the allowance through our Totex baseline. Chapter 3 of our GD Annex sets out our treatment of land remediation costs under non-regression analysis.

Bespoke PCD consultation questions

WWUQ3. Do you agree with our proposal on the bespoke PCD? If not, please outline why.

Consumer Value Propositions

2.12 The table below summarises the CVP proposals that WWU submitted under stage 2 of the BPI and outlines our consultation position.

2.13 For full details on the proposed CVPs, see WWU's Business Plan.

2.14 Where our CVP decisions reference associated bespoke ODIs, PCDs or UMs, please see Tables 18, 19 and 46 respectively for more detail.

Table 20: WWU's CVP proposals

CVP name	Consultation position
CVPs we propose to reject	
Interruptions targets: Commitment to paying any customer a voluntary payment of £25 if they are off gas for more than 12 hours, delivering £0.45m benefit over RIIO-GD2.	Reject: We do not consider this idea is innovative and therefore, it should not receive a CVP reward. Ofgem considered GSOP appointment standards in its SSMC ¹⁰ but companies' customer research indicated a GSOP was not worthwhile at that time. Given three network companies have now submitted similar ideas, we are proposing to apply a common reputational ODI for time-bound appointments. In addition, we are not proposing to accept WWU's associated ODI-R to provide compensation for missing interruptions targets (Voluntary interruptions payments) so this element also does not warrant a CVP reward.
Volunteering in the community: Wellbeing of volunteers and communities and value of volunteers' time and match funding, delivering £0.2m benefit over RIIO-GD2.	Reject: We think this CVP proposal constitutes corporate social responsibility (CSR) activities that are not within WWU's business footprint. We think CSR should be BAU for GDNs.
Enhanced GSoPs and voluntary payments: Additional payments to customers for when WWU fails to provide an agreed level of service above statutory requirements, delivering £0.32m benefit over RIIO-GD2.	Reject: As multiple companies provided additional payments for GSOPs in RIIO-GD1, we do not think it goes above or beyond customer expectations. We are also already proposing to double payments for RIIO-GD2.
Theft of gas: WWU aims to recover an average minimum of £500,000 per annum over RIIO-GD2 in lost costs due to theft of gas, delivering £1.6m benefit over RIIO-GD2 and £1.9m in RIIO-GD3. WWU commits to help vulnerable and low-income homes by helping those customers to register with a gas supplier.	Reject: We are not proposing to accept the associated ODI proposal (Theft of gas), so it should not receive a CVP reward. WWU also does not provide sufficient evidence that the commitment to register vulnerable and low-income homes goes beyond BAU.
Use-it-or-lose-it allowance: <ul style="list-style-type: none"> - access to additional services - safety in the home for those with dementia - bespoke financial support for those on low incomes - financial and practical support for local communities - CO awareness and provision of free monitors to most vulnerable. Delivers £10.3m benefit over RIIO-GD2.	Reject: WWU does not provide sufficient evidence that its proposals go beyond the activities we would expect to be funded through the consumer vulnerability and CO safety use-it-or-lose-it allowance.

¹⁰ See paragraphs 3.133-3.137 of the RIIO-GD2 GD Sector Annex to the RIIO-2 Sector Specific Methodology Consultation, <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>.

CVP name	Consultation position
PSR – joined up utility approach: Commitment to deliver at least 12,000 Priority Services Register (PSR) signups per annum, delivering £60m benefit over RIIO-GD2.	Reject: We encourage the GDNs as an industry to continue to actively promote the PSR, but do not think that PSR signup activity goes sufficiently beyond activities typically undertaken by a GDN as BAU, or beyond what other GDNs are proposing, to warrant a CVP reward. We support the work WWU proposes to create a cross utilities PSR and encourage it to use its vulnerability and CO safety allowance to carry it out.
Environmental Action Plan targets: Adapting to climate change, avoiding future costs for customers, preserving the natural capital, increasing biodiversity and promoting wellbeing. Educating schoolchildren on environmental issues. Delivers £3.23m benefit over RIIO-GD2.	Reject: Based on the evidence, the focus of this CVP was on community projects and school events to raise environmental awareness and tree planning. We do not think these activities go beyond what other GDNs are doing, and think they constitute corporate social responsibility (CSR) activities that are not within WWU's business footprint. We think CSR should be BAU for GDNs.
Whole systems data and Pathfinder with local authorities, academia and other networks: Two key data sharing innovations that will continue to be delivered and enhanced over RIIO-GD2 include the sharing of network data and the sharing of the 2050 Energy Pathfinder model, delivering £28.2m benefit over RIIO-GD2 and £11.2m over RIIO-GD3.	Reject: However, we propose to provide a baseline Totex allowance for the rollout of the model (subject to further evidence). Our reasoning is set out below this table.
NIA vulnerable customers: Innovation projects that identify and safeguard, and improve the lives of vulnerable customers, delivering £0.4m benefit over RIIO-GD2.	Reject: This does not go sufficiently beyond what we expect from companies in the use of their NIA to warrant a CVP reward.
0.5% efficiency saving: Commitment to achieve cost efficiency savings on WWU's Total Expenditure of 0.5% per year, delivering £17.6m benefit over RIIO-GD2.	Reject: Efficiency is already rewarded through other mechanisms in the price control, including the BPI Stage 4 and the TIM.

Whole systems data and Pathfinder with local authorities, academia and other networks

2.15 We are not proposing to accept WWU's Whole systems data and Pathfinder proposal, as we are unclear that it goes significantly beyond what we would have expected given the work that WWU is already doing in this area. The development of the Pathfinder model was consumer funded through the NIA in RIIO-GD1. However, we are supportive of Local Area Energy Plans and so propose a baseline Totex allowance for the rollout of the model. We are open to reconsidering our position if WWU can better evidence the CVP proposal, including better evidencing:

- the value to consumers
- that the model rollout will increase the capacity of local authorities and other stakeholders to make informed choices about local net zero pathways
- that the model rollout is supported by local stakeholders including local authorities, heat networks and the local electricity distribution networks.

2.16 A condition of providing the baseline Totex funding will be to share learning not only among GDNs but wider stakeholders. This could take a similar form to the knowledge transfer requirements and intellectual property rights for projects funded under our NIA.

CVP consultation questions

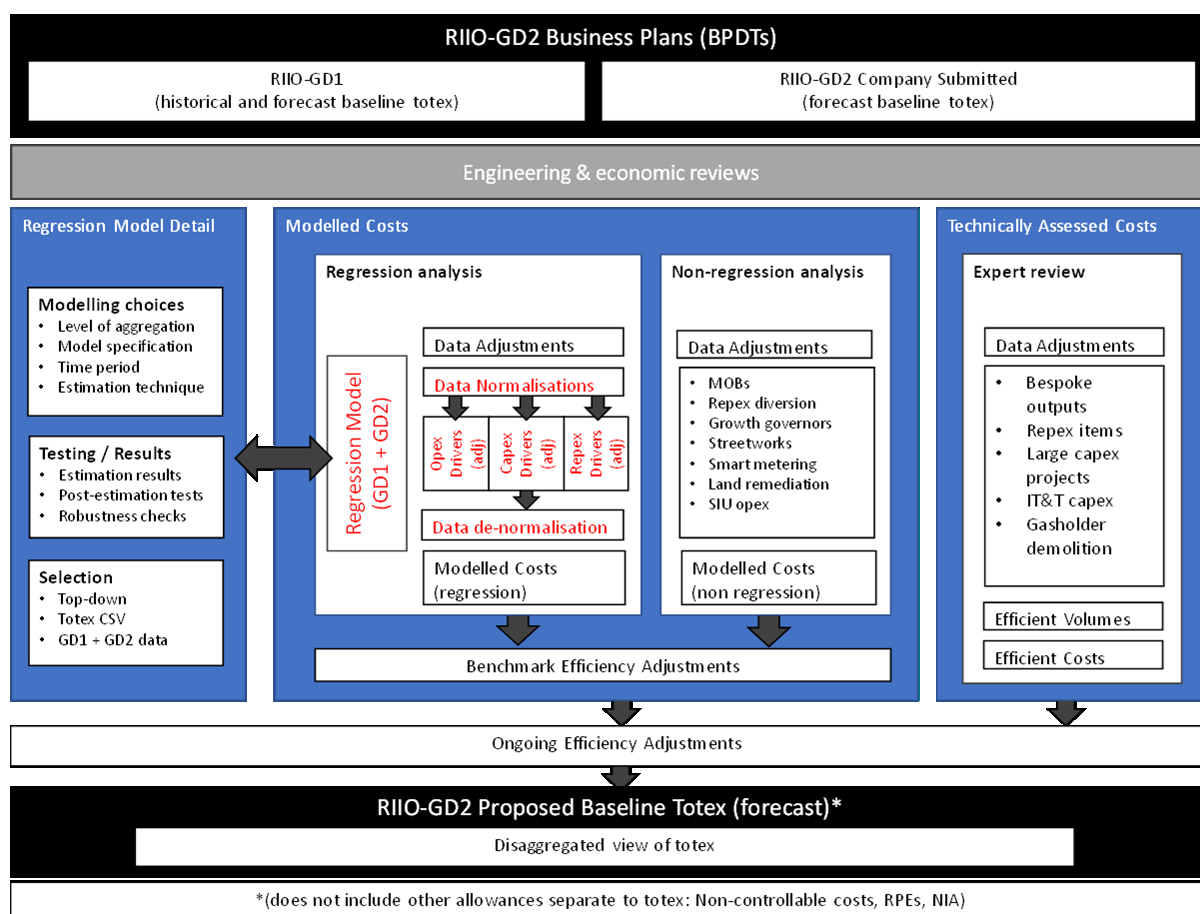
WWUQ4. Do you agree with our proposals on CVPs? If not, please outline why.

3. Cost of service - setting baseline allowances

Introduction

- 3.1 In this chapter, we detail the steps taken to reach our proposed decision on WWU's submitted baseline Totex allowance.
- 3.2 We have used three approaches in determining Totex allowances: Totex regression modelling, non-regression modelling and technical assessment. We present the results from each of these approaches next, together with a breakdown of any pre-modelling adjustments prior to our assessment, and the final steps taken to arrive at our proposed baseline Totex allowance.
- 3.3 An overview of our process and common terms used in this chapter is provided below.

Figure 2: Modelling Overview



3.4 We intend this chapter to be read alongside other parts of our Draft Determinations that set out our industrywide approach. We provide further detail in the following documents:

- on our Totex regression and modelled cost approach in our Step-By-Step Guide to Cost Assessment (SBSG Annex)
- on our assessment of regional and company-specific factors in the Regional and Company Specific Factors Annex (Regional Factors Annex).
- on our engineering assessment in our QEM/ARV Engineering Review Annex (Engineering Annex).

Baseline allowances

3.5 Baseline Totex referenced in this chapter comprises forecast controllable costs.¹¹ This includes direct and indirect Opex, Capex and Repex and is inclusive of our proposed ongoing efficiency. Non-controllable costs, pass-through costs and real price effects (RPEs), while included in overall allowed revenue recoverable by GDNs, are not included in baseline Totex and are treated separately.¹²

3.6 Table 21 compares WWU's submitted baseline Totex for each of its networks with our proposed view of baseline Totex.¹³

Table 21: WWU submitted Totex vs Ofgem proposed Totex (£m, 2018/19)

Network	Submitted Totex (£m)	Proposed Totex (£m)	Difference (£m)	Difference (%)
WWU	1,182	997	-185	-16%

3.7 A breakdown of proposed Totex at the activity level is provided in Appendix 2. Our proposed methodology for disaggregating allowances is set out in the GD Annex and the SBSG Annex.

Summary of our assessment

3.8 Prior to modelling WWU's forecast Totex, we separated costs associated with activities considered suited to technical assessment. For the remaining modelled Totex, we distinguished between costs suitable for regression analysis and costs

¹¹ Baseline Totex, Totex and forecast controllable costs will be used interchangeably.

¹² Any costs not included in baseline Totex, but included in allowed revenue, are captured in the licence model.

¹³ Both company submitted baseline Totex and our proposed baseline Totex include the same items for easy comparison.

subject to non-regression analysis. Table 22 details this breakdown of submitted Totex for WWU.

Table 22: WWU Totex breakdown by assessment approach (£m, 2018/19)

Network	Submitted Totex	Modelled Totex		Technical assessment costs
		Regression	Non Regression	
WWU	1,182	1,139	22	21
% split	100%	96%	2%	2%

3.9 Adjustments to submitted costs under each of our assessment approaches are summarised in Table 23. Modelled costs are subject to pre-modelling and benchmarking efficiency adjustments. Technically assessed costs are subject to technical assessment adjustments only. All costs are subject to ongoing efficiency adjustments.

Table 23: Step by step breakdown of adjustments (£m, 2018/19)

Network	Modelled cost		Technically assessed adjustments	Ongoing efficiency adjustments	Total adjustments
	Pre modelling adjustments	Benchmark efficiency adjustments			
WWU	-96	-49	0	-40	-185

Further details on our proposed adjustments

Proposed pre-modelling adjustments

3.10 For costs subject to Totex modelling (regression), we propose a number of pre-modelling adjustments to volumes and remove any costs subject to an uncertainty mechanism. These adjustments for WWU are summarised in the table below.

Table 24: Proposed pre-modelling adjustments, WWU (£m, 2018/19)

Network	Volume-related adjustments	UM related adjustments	Total pre-model adjustments
WWU	-66	-30	-96

3.11 The £66m removed due to volume-related adjustments are Repex activities where we did not consider the needs case to have been justified.

- 3.12 We also propose to remove £30m of costs associated with IT and Telecoms Capex (£26m) and customer vulnerability (£4m) to potential re-openers and other uncertainty mechanisms.

Proposed benchmarking efficiency adjustments

- 3.13 Overall, WWU performed average on efficiency. They received a negative benchmarking efficiency adjustment, being the fourth ranked company.

Proposed technically assessed cost adjustments

- 3.14 For technically assessed costs, we have made the following adjustments, listed in the table below. Our proposed view of bespoke proposals is presented in Chapter 2. Further details on other items is provided later in this chapter.

Table 25: Technically assessed cost adjustments, WWU (£m, 2018/19)

Network	Bespoke outputs	Capex projects	IT and Telecoms Capex	Gasholder demolition	Total adjustments
WWU	-0.2	0	0	0.6	0.4

Regression Analysis

Introduction

- 3.15 In this section, we describe our proposed adjustments to the drivers that define the Totex Composite Scale Variable (CSV) used in our regression model. Changes to drivers complement the pre-model adjustments made to submitted Totex costs, noted above. Adjustments were made following engineering and cost assessment reviews of NGN's Business Plan.

- 3.16 Details are provided for each of our cost categories, Opex, Repex and Capex, listing out any changes to drivers used in the regression model. For reference, values provided by WWU are referred to as submitted, and values used in our regression model as modelled.

Opex proposals

- 3.17 The components of the Totex CSV that relate to Opex are Modern Equivalent Asset Value (MEAV), maintenance MEAV, emergency CSV and total external condition reports.

3.18 In our Totex regression modelling for RIIO-GD2, we propose the following adjustment to the number of external condition reports:

- WWU's submitted number of external condition reports show an increase by 7% in 2019/20, followed by a flat profile over the RIIO-GD2 period.
- Our adjustment reduces WWU's trend in the number of external condition reports to the average of the rest of the industry from 2019/20 to 2025/26 (a decrease of approximately 2% each year).
- This adjustment impacts WWU's cost driver for both Emergency and Repair activities.

Table 26: WWU's Opex drivers

Network	Driver Value	
	Submitted	Modelled
MEAV (£m, 2018/19)		
WWU	58,659	58,659
Maintenance MEAV (£m, 2018/19)		
WWU	26,534	26,534
Emergency CSV (No., 80% customers number, 20% total external condition reports)		
WWU	4,425,646	4,259,042
Total External Condition Reports (No.)		
WWU	58,649	48,440

Repex proposals

3.19 For Repex regression modelling, we use workloads to define the Totex CSV together with synthetic costs. The resultant synthetic cost driver is the sum of the products of workload volumes and synthetic unit cost for each activity.

3.20 Where we have disallowed workloads, we have also removed any corresponding costs from submitted Totex. In the following section, we present the adjustments we made to Repex workloads (the Repex component of the cost driver).

Tier 1 mains and steel mains <=2"**Table 27: Tier 1 mains and steel <=2" mains commissioned workloads (RIIO-GD2 total, km)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Tier 1 (km)			We have disallowed all workloads associated with dynamic growth in Tier 1 (see GD Annex)
WWU	1,587.2	1,538.2	
Steel <=2" (km)			We have allowed in full WWU's proposed steel mains <=2" workloads for all its networks
WWU	239.1	239.1	

Tier 2A mains**Table 28: Tier 2A mains commissioned workloads (RIIO-GD2 total, km)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Tier 2A (km)			We have allowed in full WWU's proposed Tier 2A workloads as part of baseline modelling. ¹⁴
WWU	2.3	2.3	

Tier 2B and Tier 3 mains**Table 29: Tier 2B and Tier 3 mains commissioned workloads (RIIO-GD2 total, km)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Tier 2B (km)			We have not allowed the proposed Tier 2B workloads for WWU, as we did not think the supporting Cost Benefit Analysis (CBA) had sufficiently justified the proposed investments.
WWU	139.9	0.0	
Tier 3 (km)			We have allowed WWU's proposed Tier 3 workloads.
WWU	10.8	10.8	

Further details on our proposed position

3.21 We have not allowed for the Tier 2B workloads submitted by WWU. We do not think that the needs cases for these workloads have been justified given the

¹⁴ See GD Annex for further discussion of the Tier 2A volume driver.

significant increase in annual spend being proposed by WWU between RIIO-GD1 and RIIO-GD2. We did not think that CBAs gave sufficient consideration to the option of deferring investments or presented detailed sensitivities of the assumptions underpinning the needs case for these proposed investments. Additionally, there was insufficient clarity on how different elements of the proposed workloads contribute to the aggregate-level benefits presented in the CBAs.

Steel mains >2"

Table 30: Steel mains >2" commissioned workloads (RIIO-GD2 total, km)

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
WWU	107.8	107.8	We have allowed in full WWU's proposed steel mains >2" workloads.

Further details on our proposed position

3.22 We have allowed in full WWU's submitted steel mains >2" workloads, as we consider the engineering needs case to have been justified and the investment is supported on a CBA basis.

Iron mains >30m and Other Policy and Condition mains

Table 31: Iron mains >30m and Other Policy and Condition mains commissioned workloads (RIIO-GD2 total, km)

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Iron mains >30m (km)			We have not allowed WWU's proposed iron mains >30m workloads, as this was not supported by CBA.
WWU	49.0	0.0	
Other Policy and Condition mains (km)			WWU did not submit any other policy and condition mains workloads.
WWU	0.0	0.0	

Further details on our proposed position

3.23 We have not allowed for WWU's submitted workloads associated with iron mains >30m, as these were not supported by CBA and, therefore, we do not consider the needs case to have been fully justified. WWU did not submit any costs associated with other policy and condition mains.

Services associated with mains replacement**Table 32: Services associated with mains replacement commissioned workloads¹ (RIIO-GD2 total, no. of services)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Tier 1 (No.)			Where we have disallowed mains replacement workloads (discussed above), we have made corresponding downward adjustments to service interventions. All adjustments were made on a pro rata basis.
WWU	122,385	118,603	
Tier 2A (No.)			
WWU	468	468	
Tier 2B (No.)			
WWU	13,013	0	
Tier 3 (No.)			
WWU	1,030	1,030	
Iron Mains >30m (No.)			
WWU	2,123	0	
Steel Mains > 2" (No.)			
WWU	3,745	3,745	
Other Policy and Condition (No.)			
WWU	9,180	9,180	
¹ Includes relays, and test and transfer for both domestic and non-domestic properties			

Services not associated with mains replacement**Table 33: Services not associated with mains replacement commissioned workloads (RIIO-GD2 total, no. of services)**

Network	Deliver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Non-Domestic: Relay (No.)			We have partially disallowed non-domestic relay workloads.
WWU	1,582	577	
Domestic: Relay after escape (No.)			We have partially disallowed non-domestic relay workloads.
WWU	17,159	16,435	
Domestic: Relay other¹ (No.)			We have partially disallowed non-domestic relay workloads.
WWU	7,619	5,946	
¹ Includes Domestic Relay: Bulk Services, Relay: Service Alts, Meter Relocations, Relay: Smart Metering, Relay: Smart Metering (Workload at Cost of Shipper), Relay: Other (Metallic), Relay: Other (Non-Metallic)			

Further details on our proposed position

- 3.24 We have made downward adjustments to submitted workloads of services not associated with mains replacement for WWU. WWU's submitted workloads for RIIO-GD2 appeared to be high, relative to both WWU's RIIO-GD1 run rates and other networks. We have adjusted workloads of 'Relay: Other (Metallic)' and 'Relay: Services Alts, Meter Relocations' in RIIO-GD2 to WWU's historical average annual workloads. We have also adjusted workloads of 'Relay: After Escape' in RIIO-GD2 to the RIIO-GD2 industry average growth rate.

Capex proposals

- 3.25 Reinforcement and Connections workloads are Capex components of the Totex CSV used in the regression modelling for RIIO-GD2. We have accepted WWU's proposed Reinforcement workloads in full, as we note these are broadly in line with RIIO-GD1.

Table 34: Reinforcement workloads (RIIO-GD2 total)

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
General (km)			We have allowed in full WWU’s proposed reinforcement workloads.
WWU	37.0	37.0	
Specific (km)			
WWU	56.8	56.8	
1 Includes mains only, as growth governors have been assessed separately, similar to RIIO-1.			

- 3.26 As shown in Tables 35 and 36, we have included WWU's proposed Connections workloads in full. As discussed in GD Annex and Chapter 2 of this document, we propose to include volume drivers for both common domestic and FPNES connections to handle any variations in outturn workload volumes.

Table 35: Connections - mains workloads (RIIO-GD2 total)

Network	Driver Value	
	Submitted	Modelled
Domestic: all types (km)		
WWU	186.7	186.7
Non-domestic: all types (km)		
WWU	29.3	29.3
FPNES (km)		
WWU	9.9	9.9

Table 36: Connections - services workloads (RIIO-GD2 total)

Network	Driver Value	
	Submitted	Modelled
Domestic: all types (No.)		
WWU	43,146	43,146
Non-domestic: all types (No.)		
WWU	3,050	3,050
FPNES (No.)		
WWU	5,000	5,000

Non-regression Analysis

- 3.27 This section presents an overview of the non-regression analysis we undertook for WWU, including adjustments that we made to costs and workloads. The analysis covered the following categories: Multiple occupancy buildings (MOBs), diversions, growth governors, streetworks, smart metering and land remediation. For each category, we present a summary of submitted and modelled costs and workload volumes. Modelled costs from our non-regression analysis are added to modelled costs from our regression analysis, which are then subject to our Totex efficiency challenge.
- 3.28 For some non-regression models, the costs assessed fall into more than one of the Opex/Capex/Repex cost categories (ie MOBs, streetworks). We present each non-regression model in turn, rather than seeking to categorise costs into Opex/Capex/Repex. Where we present modelled costs in the tables below, these are pre-application of benchmarking and ongoing efficiency adjustments.

Multiple occupancy buildings (MOBs) proposals

Table 37: MOBs interventions proposed gross costs and workloads (RIIO-GD2 total)

Network	Costs (gross)		Workloads	
	Submitted (input)	Modelled (output)	Submitted (input)	Modelled (output)
	£m	£m	No.	No.
MOBs Repex				
WWU	8.3	2.7	237	237
MOBs maintenance¹				
WWU	0.0	0.0	0.0	0.0
MOBs connections				
WWU	0.0	0.0	0.0	0.0
¹ MOBs maintenance costs only capture Repex maintenance costs. Maintenance costs for services associated with MOBs are not included.				

Further details on our proposed position

3.29 We have made a downward adjustment to the planned replacement category for WWU's proposed MOBs Repex, as we do not believe the submitted unit costs have been sufficiently justified. We used the average of Cadent's RIIO-GD2 unit costs for this activity to adjust WWU's unit costs. We used Cadent's costs as a comparator, as they were considered the most reliable based on an assessment of historical and RIIO-GD2 submitted costs across all of the networks.

Diversions

3.30 WWU did not submit any costs or workloads for diversions in RIIO-GD2.

Growth governors

3.31 WWU did not submit any costs or workloads for growth governors in RIIO-GD2.

Streetworks proposals

Table 38: Streetworks costs (RIIO-GD2 total)

Network	Costs	
	Submitted	Modelled (output)
	£m	£m
WWU	5.1	5.9
Workload/volume data not used for cost assessment.		

3.32 We disallowed costs for fines and penalties, and adjusted WWU's costs in line with its average costs in years 2016/17 to 2019/20, this results in an increase in WWU's submitted streetworks costs because their average costs excluding fines and penalties in this time period are higher than their average submitted RIIO-2 costs.

Smart metering

3.33 WWU did not forecast any expenditure associated with smart metering.

Land remediation

Table 39: Land remediation costs and workloads (RIIO-GD2 total)

Network	Costs		Workloads	
	Submitted	Modelled	Submitted	Modelled
	£m	£m	No. of sites	No. of sites
WWU	6.8	6.8	70	70

3.34 We did not adjust WWU's forecast land remediation expenditure.

Technically assessed costs

3.35 This section presents an overview of the technical analysis undertaken for WWU, including discussion of the adjustments that we made to submitted costs. For each category, we present a summary of submitted and proposed costs (excluding ongoing efficiency). Our Engineering Annex sets out how we assessed costs, including an expert review of potential Capex and Repex investments.

Bespoke outputs proposals

3.36 We excluded £0.3m of forecast incremental expenditure associated with WWU's proposed theft of gas output from our regression and non-regression modelling, and instead assessed under our technical assessment category. We have not accepted any expenditure associated with the proposed output. Detail on our decisions for all bespoke outputs is provided in Chapter 2. Table 40 summarises our decision on WWU's forecast bespoke outputs.

Table 40: Proposed assessment of WWU's submitted bespoke outputs

Network	Submitted	Proposed (excludes OE)	Adjustments	Adjustment (%)
WWU	0.3	0.0	-0.3	-100%

Repex

3.37 We did not assess any of WWU's Repex costs under this category.

Capex proposals

Local Transmission System (LTS), storage and entry

Table 41: Technical assessment of LTS, storage and entry projects

Network	Investment name	Costs		
		Submitted	Proposed ¹	Confidence
		£m	£m	
WWU	HN039 LTS Pipeline Replacement	13.19	13.19	Low
1 Proposed costs do not include ongoing efficiency				

3.38 We are satisfied with the justification for the HN039 LTS Pipeline Replacement (also referred to as Wholesale Replacement in WWU's Business Plan) investment, and while we are satisfied that submitted costs are in line with similar pipeline projects, we note that cost detail was lacking in the EJP. We have therefore allowed the proposed costs but with a low confidence BPI classification. We propose to fund this investment through a common Capital Projects PCD, discussed further in Chapter 2.

IT and Telecoms proposals**Table 42: Allowed IT and Telecoms projects**

Network	Costs	
	Submitted	Proposed ¹
	£m	£m
WWU	5.1	5.1
1 Proposed costs do not include ongoing efficiency		

3.39 The IT and Telecoms costs were assessed as part of a separate review by our consultant Atkins. See our GD Annex and IT and Telecoms Assessment Annex for the details of the assessment approach.

3.40 WWU submitted £31.8m of costs for IT and Telecoms projects. Atkins' review highlighted that only minor IT projects amounting to £5.1m are at a sufficient stage of maturity to enable us to propose ex ante funding. We consider Atkins' review appropriate and thus propose an ex ante allowance for these projects, which we have accepted in full and labelled as high confidence costs under the BPI. We have proposed a re-opener to allow funding for the other submitted projects as their needs cases become clear. Details of the proposed uncertainty mechanism can be found in the Core Document.

Non Totex cost items

Non-controllable Opex

3.41 We propose to make some minor adjustments to submitted non-controllable Opex. We adjusted shrinkage costs based on updated cost of gas forecasts¹⁵, and adjusted the established pension deficit recovery plan payments based on the 2017 reasonableness review. Table 43 summarises our allowances for WWU's non-controllable Opex.

¹⁵ Based on BEIS 2019 Gas Price Assumptions.

Table 43: RIIO-GD2 non-controllable Opex (£m, 2018/19)

	WWU
Total non-controllable Opex	508.2
Shrinkage	25.5
Ofgem Licence	8.2
Network Rates	217.0
Established Pension Deficit Recovery Plan Payment	35.2
NTS Pension Recharge	35.5
Bad Debt	0.0
NTS Exit Costs	173.7
Xoserve	13.1
Other	0.0

4. Adjusting baseline allowances to allow for uncertainty

Introduction

4.1 In this chapter we cover two main areas:

- Firstly, we set out the WWU specific parameters for common GD sector UMs.
- Secondly, we set out our views on the bespoke UMs that WWU proposed in its Business Plan.

Common UMs

4.2 We set out our consultation position for the WWU-specific parameters in the following tables.

4.3 We set out more detail on the common UMs in the GD Annex, including the broader consultation position and rationale.

Repex – Tier 2A iron mains volume driver

Table 44: Consultation position - Tier 2A iron mains decommissioned Baseline Target Workloads (RIIO-GD2 total)

WWU	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Target Workloads
<i>Workload Activities</i>	<i>Km</i>	<i>Km</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>
Tier 2A mains decommissioned						
9" in diameter	0.00	0.00	0.00	0.50	0.00	0.50
10"-12" in diameter	0.22	0.00	0.00	1.00	0.37	1.58
>12"-17" in diameter	0.01	0.00	0.64	0.15	0.45	1.24
Totals	0.23	0.00	0.64	1.65	0.81	3.33

Table 45: Consultation position - Tier 2A iron mains and services Baseline Cost Allowance (RIIO-GD2 total, £m 2018/19)

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Cost Allowance
<i>Baseline Cost Allowance</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Tier 2A mains and services Baseline Cost Allowance						
WWU	0.04	0.00	0.23	0.60	0.04	0.90

Common UMs consultation question

WWUQ5. What are your views on the baseline values for the Tier 2A iron mains volume driver?

Bespoke UM Proposals

4.4 We invited companies to propose bespoke UMs with suitable justification in our sector methodology (SSMD). We have considered the extent the supporting information justifies the key criteria outlined in the Business Plan Guidance, including:

- materiality and likelihood of the uncertainty
- how the risk is apportioned between consumers and the network company
- the operation of the mechanism
- how any drawbacks may be mitigated to deliver value for money and efficient delivery.

4.5 We also considered whether the uncertainty was regionally specific, or industry wide, to assess whether a common re-opener could be more appropriate. You can find the background and our assessment approach in our Core Document.

4.6 The table below summarises the bespoke UM proposals that WWU submitted and outlines our consultation position. For full details on the bespoke proposals, refer to WWU's Business Plan.

Table 46: WWU's bespoke UM proposals

UM name	Consultation position
Bespoke uncertainty mechanisms we propose to reject	
Net zero review mechanism: WWU proposed there should be a flexible funding mechanism that will enable it to meet its net zero ambition while protecting customer bills and network financeability.	Reject: We welcome the evidence WWU presented alongside this proposal. We agree that an uncertainty mechanism is required to meet the net zero challenge. We have therefore proposed a cross sector Net Zero Re-opener for RIIO-2 (see our Core Document for more details).
Specified streetworks: The probability of legislative development is high given the current uptake of permit and lane rental schemes.	Reject: We propose to merge this proposal into a new common UM to address the uncertainty for future costs associated with new permit and lane rental schemes not yet in operation (see Chapter 3 of our GD Annex for Totex and Chapter 4 of our GD Annex for the mechanism).
Smart meters rollout costs: The risk is carried over from RIIO-GD1 and WWU therefore propose to continue with a re-opener mechanism. WWU is happy to discuss the use of a possible volume driver as discussed by Ofgem within the RIIO-2 SSMD.	Reject: We propose to merge this proposal into a new common UM to address the uncertainty associated with the timing of the programme (see Chapter 3 of our GD Annex for Totex and Chapter 4 of our GD Annex for the mechanism).
Changes to charging boundary: As the use of the gas distribution network evolves, the likelihood of a charging boundary review increases.	Reject: We propose to merge this proposal with a new common UM. We agree that the outcome of this review is uncertain and may result in increased costs for gas networks. We have therefore made specific provision for this in our Heat Policy re-opener. We provide further details in Chapter 4 of the GD Annex.
Large load connection costs: As the UK Government has ruled out coal generation from 2025, there is the possibility that additional large gas-fired electricity generation plants will fill this large generation gap.	Reject: We propose to merge this proposal into a new common UM. We consider that there is sufficient evidence the network company cannot manage the uncertainty within its baseline allowance. However, we consider the need for risk mitigation applies to all GDNs and we propose a common re-opener that addresses both large load connections and reinforcement. See Chapter 4 of our GD Annex for our proposed New Large Loads re-opener.
Loss of development land claims: Given the high level of uncertainty around the volume and financial cost of development loss claims and the exercise by landowners of lift and shift clauses in some Deeds, it is difficult to set baseline funding to cover this area.	Reject: We consider land development claims to be part of BAU activities associated with operating a distribution network. WWU did not provide sufficient evidence to support the suggestion that the number, or materiality, of the claims will rise in RIIO-GD2. In RIIO-GD1, the GDNs are treating these costs as Totex overspend and therefore share the costs with customers. We will continue this approach for RIIO-GD2.

UM name	Consultation position
Changes to DCC funding arrangements: There has been some industry discussion about GDNs potentially becoming individual members and funding the Data Communications Company.	Reject: GDNs are not mandated to be DCC Users and WWU has not sufficiently evidenced that a re-opener is required for this during RIIO-GD2.
Data Strategy: While WWU support the principle of 'open data', there is currently no understanding of the impact this may have on stakeholder commitments and Totex cost requirements. WWU proposes a re-opener mechanism that would be triggered once there is more clarity on the direction of travel.	Reject: We do not consider that there is sufficient justification for the need and operation of re-opener mechanism above baseline IT and Telecoms Totex. We expect effective digitalisation will provide system benefits and reduce costs for consumers and companies. For related areas, refer to Chapter 4 of the Core Document for proposed Licence Obligations for 'Modernising Energy Data' and Chapter 3 of the GD Annex for the technical assessment of 'IT&T Capex'.

Bespoke UM consultation questions

WWUQ6. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

5. Innovation

5.1 Our SSMD and the Core Document identify the criteria that we have used to assess Network Innovation Allowance (NIA) funding requests.¹⁶ The Core Document also details our proposals for the RIIO-2 NIA Framework and the Strategic Innovation Fund.

Network Innovation Allowance

5.2 We set out below our Draft Determinations on WWU's RIIO-2 NIA funding.

Consultation position

Network Innovation Allowance	Company proposal	Consultation position
Level of NIA funding	£13.3m	£13.3m *Conditional on an improved industry-led reporting framework.

Rationale for consultation position

5.3 WWU's Business Plan contained a range of NIA-related proposals. It focused on the energy system transition and addressing consumer vulnerability, corresponding to three themes.

- Meeting the needs of consumers and network users, by considering new technology to protect customers during loss of supply, study and trial appliances and sensors for customer safety, and using data and analytics to identify customers with additional needs.
- Delivering an environmentally sustainable network, by trialling home 'smart' assets and methods for energy consumption control, facilitating more unconventional gas connections, identifying and adopting whole systems methods and policies, promoting data sharing, and supporting evidence generation for the pathway to net zero.
- Delivering a safe and resilient network, by developing novel technologies and methods to improve on repair and replacement work, improve gas escape management, reduce interruption for customers, progressing technology for a 'smarter' and connected network, and discovering 'life extension solutions'.

¹⁶ SSMD Core Document, Para 10.62; Core Document, Chapter 8.

- 5.4 WWU's NIA proposals focus on initiatives that appear either high risk, or would not deliver benefits during the price control period. Based on this, we have reasonable confidence that projects that will be taken forward will require the NIA in order to progress. Over RIIO-GD2, it is for WWU to determine which projects it will undertake and for each, it will need to demonstrate why the project cannot be funded through baseline Totex, why it needs to be funded via the NIA, and how it supports the energy system transition or addresses consumer vulnerability. This will be part of the RIIO-2 NIA governance arrangements.
- 5.5 Our assessment of WWU's Business Plan against the criteria from our SSMD and the Core Document is below.

Table 47: Assessment of WWU's Business Plan against NIA criteria

SSMD /Core Document NIA criteria	Ofgem view
Undertaking other innovation as BAU	Satisfactorily meets the criterion including: evidence of focus areas for innovation within BAU activities under each of the innovation themes mentioned above with detail included in chapters throughout plan.
Application of best practices	Satisfactorily meets the criterion including: evidence of a clear governance process and the use of best practice methodologies for innovation projects.
Processes in place to rollout proven innovation and the evidence that this is already happening	Satisfactorily meets the criterion including: evidence of key learnings from RIIO-1 innovation and provides examples of projects that have been rolled out.
Processes in place to monitor, report and track innovation spending and the evidence that this is already happening	Does not satisfactorily meet the criterion: consistent with our assessment of all NIA requests, we do not consider that WWU has demonstrated that it has tried and tested processes in place to monitor, report and track innovation spending and benefits.

- 5.6 In RIIO-1 WWU was awarded 0.5% of base revenue as NIA funding equivalent to around £2m per year. We believe WWU provided good evidence of the need for a small increase in NIA funding, to focus on the challenges facing the gas industry. It also detailed how it expects to utilise a higher allowance in RIIO-2, compared to RIIO-1. Therefore, we believe WWU's funding request is reasonable and proportionate. We accordingly propose to provide WWU £13.3m NIA funding for RIIO-2.
- 5.7 As detailed in the Core Document, we propose that all NIA funding is conditional on the implementation by the start of RIIO-2 of an improved, industry-led

reporting framework. If this condition is not satisfied, our proposal is that we will not award NIA funding for RIIO-2.

Innovation consultation questions

WWUQ7. Do you agree with the level of proposed NIA funding for WWU? If not, please outline why.

Appendix 1 Consultation questions

Common outputs consultation question

WWUQ1. What are your views on the values for the common output parameters we have set out in the WWU Annex?

Bespoke ODI consultation questions

WWUQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

Bespoke PCD consultation questions

WWUQ3. Do you agree with our proposal on the bespoke PCD? If not, please outline why.

CVP consultation questions

WWUQ4. Do you agree with our proposals on CVPs? If not, please outline why.

Common UMs consultation question

WWUQ5. What are your views on the baseline values for the Tier 2A iron mains volume driver?

Bespoke UM consultation questions

WWUQ6. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

Innovation consultation questions

WWUQ7. Do you agree with the level of proposed NIA funding for WWU? If not, please outline why.

Appendix 2 Proposed baseline Totex allowances in detail

Table 48: RIIO-GD2 proposed baseline Totex allowance, WWU (£m, 2018/19)

Cost activity	2022	2023	2024	2025	2026	RIIO-GD2 Total
Work Management	20.6	21.7	20.3	18.3	18.2	99.2
Emergency	12.4	11.6	11.2	11.7	11.8	58.7
Repair	10.5	9.3	9.7	9.6	9.5	48.5
Maintenance	16.3	15.5	15.2	15.6	15.7	78.3
Other Direct Activities	2.9	3.0	4.0	3.0	2.1	15.0
Total Direct Opex	62.6	61.1	60.3	58.2	57.4	299.6
Business Support	25.9	24.8	24.0	23.9	23.9	122.5
Training and Apprentices	3.8	3.8	3.9	3.8	3.7	19.1
Total Indirect Opex	29.7	28.6	27.8	27.8	27.7	141.6
LTS and Storage	12.3	21.8	12.1	10.6	10.9	67.6
Connections	12.7	11.0	10.7	10.4	10.2	55.0
Mains Reinforcement	4.5	4.6	4.0	3.7	3.7	20.5
Governors	2.8	2.4	2.5	2.4	2.3	12.4
Transport and Plant	6.5	6.0	4.0	7.2	7.0	30.6
Other Capex	4.3	4.5	4.3	3.5	5.0	21.5
Total Capex	43.0	50.2	37.6	37.8	39.0	207.6
Total Repex	72.1	70.2	68.6	69.1	68.3	348.3
Totex	207.4	210.2	194.3	192.9	192.3	997.1