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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | NGN \_DDQ\_53 |
| **Licence** | Northern Gas Networks |
| **Topic/Activity:** | Cost efficiency challenge |
| **Question:** | In the [9] Allowances excel workbook, tab named Cal\_EfficientCosts. Ofgem have set an efficiency challenge by multiplying NGN’s modelled costs (post reversals) by the 85th percentile efficiency score (0.95263). This calculation essentially reduces our modelled costs by 0.04737%, or approx. £10m per annum.  Why is NGN subject to this efficiency challenge when it is the most cost efficient GDN?  NGN’s RIIO 2 Average Efficiency Factor is 0.89, which is significantly below the 0.95263 adjustment. Can you explain why this 0.95263 number has been applied to our modelling costs? |
| **Confidential** | No |
| **DDQ raised by** | Nick Pollard |
| **Date query raised** | 18/08/2020 |
| **Expected response date** | 25/08/2020 |
| **Ofgem Response:**  We followed RIIO-GD1 approach in applying a given efficiency challenge to all GDNs. As note in the technical annex ‘RIIO-GD2 Step-by-step guide to cost assessment’ (para 1.71), “we selected the 85th percentile score rather than the frontier to acknowledge that part of the difference in costs across GDNs related to factors other than GDNs’ relative efficiency (ie measurement errors and statistical noise).” | |
| **Attachments:** | |