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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | SGN\_DDQ\_Q105 |
| **Licence** | SGN |
| **Topic/Activity:** | Cost Efficiency |
| **Question:** | We believe that there is an error in the formula used by Ofgem to compound its view of net ongoing efficiency (OE). Please note that this is separate to the CAGR formula error previously highlighted. Within the spreadsheet ‘[10] FrontierShift’, in all of the ‘Calc\_FS[GDN]’ tabs, the compounding formula used in cells AE72:AK124 appears to be overstating the compounded values of net OE. We believe the correct formula should be: ((1 – NetOE)^t) – 1. Where t = 1 in the first year of compounding and then increases by 1 in each subsequent year. Please can Ofgem confirm whether this is an error. |
| **Confidential [Yes/No]** | No |
| **DDQ raised by** | Danny Symes |
| **Date query raised** | 16/08/2020 |
| **Expected response date** | 26/08/2020 |
| **Ofgem Response:**  We acknowledge there appears to be an error with the compounding calculation of the residual ongoing efficiency.  The correct formula should provide the following opex values and subsequent adjustment factors.    We will correct this formula for the FD. | |
| **Attachments:** | |