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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | CADENT \_DDQ\_87 |
| **Licence** | CADENT |
| **Topic/Activity:** | Adjusted CSV – related to query CADENT\_DDQ\_56 |
| **Question:** | Thank you for your response to CADENT\_DDQ\_56.  On further review, we now understand that despite using normalised costs in the regression model, which have had adjustments made to reflect disallowed or increased workloads, you have used the unadjusted CSV in the model which does not reflect the respective workload adjustments.  This appears to be an unbalanced approach to econometric modelling, reducing the explanatory power of the model, and increasing error in the model results.  Can you confirm this approach is an error? If it is not an error, could you please explain why this approach is appropriate and does not undermine the confidence in the model. |
| **Confidential** | No |
| **DDQ raised by** | Kate Haycock |
| **Date query raised** | 11/08/2020 |
| **Expected response date** | 14/08/2020 |
| **Ofgem Response:**  In the Normalisation files, we excluded costs that we proposed to disallow from the baseline. The regression analysis was performed using these normalised costs as dependent variable and a CSV driver that included unadjusted workloads. The estimated coefficients were then applied to the adjusted CSV driver (ie inclusive of workload adjustments such as for repex).  We welcome alternative views on the specifics of the approach as part of our consultation process. | |
| **Attachments:** | |