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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | NGN \_DDQ\_54 |
| **Licence** | Gas Distribution |
| **Topic/Activity:** | Ongoing Efficiency Challenge |
| **Question:** | Re: [10] Ongoing Efficiency spreadsheet provided in riio\_gd\_model\_suit\_part\_2  We are still awaiting responses to DDQ 34 on ongoing efficiency sent 30/07/20.  In addition, in Inp\_NetworkOE\_GD tab:   * NGN Values not compounded unlike the other GDNs * CAGR values applied over 7 years but based on data from 5 years – should be consistent   In Cal options tabs - Weighted Average of All Industries   * VA weights used for both GO calculations and VA calculations, different weights should be use for GO calcs   Please could you provide [Draft] EU KLEMS 2019.xlsx - Version 3 (27/05/20) referenced in the EUKLEMS input tab?  Please could you confirm if labour productivity is on a per work or per hour basis? |
| **Confidential** | No |
| **DDQ raised by** | Dean Pearson, Economic Evaluation Lead, NGN |
| **Date query raised** | 18/08/2020 |
| **Expected response date** | 25/08/2020 |
| **Ofgem Response:**  With reference to Inp\_NetworkOE\_GD    **NGN Values not compounded unlike the other GDNs**  (as per Cadent\_DDQ\_92)  We have used data provided by NGN in the BPDT which we agree has not been compounded. We note it is appropriate that updated values (compounded) should be used for the FD in this calculation for NGN.  We have noted this as a data error in the log.  **CAGR values applied over 7 years but based on data from 5 years – should be consistent**  (as per Cadent\_DDQ\_98)  The current proposed calculation for embedded ongoing efficiency calculates the CAGR over the RIIO2 period. To estimate the starting position, the reference year 2021 (from the model) should have been used.  We did not include any potential “front loading”, involving higher productivity assumptions in the remaining years of RIIO1, nor believe they should be included as they relate to expenditure in RIIO1 (this may contribute to reducing catch up inefficiencies / over performance associated with the RIIO1 price control).  We have taken a longer-term view of the average embedded productivity gains estimated from our calculation and applied these to all years for RIIO-GD2 calculation.  **In Cal options tabs - Weighted Average of All Industries**  VA weights used for both GO calculations and VA calculations, different weights should be use for GO calcs. The weightings are set out in Annex A.2 of the CEPA Frontier Shift report. In addition, please see files provided as attachments to NGN\_DDQ\_34.  Please note labour productivity has been defined at constant capital using a standard formula as gTFP(VA) / (1 – share of K in VA), where K is defined as capital compensation. As the gTFP(VA) is calculated using hours worked (adjusted for quality), labour productivity at constant capital is on per hour basis rather than per work. | |
| **Attachments:** | |