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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | SGN\_DDQ\_Q112 |
| **Licence** | SGN |
| **Topic/Activity:** | Cost efficiency |
| **Question:** | Following our review of spreadsheet [10] RPEs, we have the following questions:   1. Please can Ofgem provide the calculations underpinning the notional cost structure weights shown in tab “Inp\_NotionalStructure” cells J11:J16.  Ofgem’s DD states that these are derived from industry submitted costs but we have been unable to replicate the values. 2. Please can Ofgem share the source data underlying the calculation of indices in tab “Inp\_Indices”. 3. There appears to be an error in the formula Ofgem uses to calculate “GDNs – Compounded” values in tab Cal\_RPE, rows 24 – 38.  For example, Ofgem’s formula in cell AE28 is 1-(1-AE13)\*(1-AD28).  We believe the correct compounding formula should be (1+AD28)\*(1+AE13)-1.  We believe Ofgem’s compounding formula will understate RPEs. 4. There appears to be an error in row 37. Ofgem calculates a totex-level RPE index by taking a weighted average if the compounded values calculated in rows 28-33. We believe it is inappropriate to average compounded values in this way, if Ofgem is using its totex-level RPE to calculate allowances.  We believe the correct approach would be to replace the formula in row 37 with (1+AD37)\*(1+AE22)-1. 5. Please can Ofgem provide an explanation as to why a smoothed CAGR formula was used to calculate productivity indices, but for RPEs Ofgem has calculated annually compounded values which vary year on year? 6. Please can Ofgem provide the calculations underlying the conversion of RPE indices calculated in spreadsheet [10] RPEs, into £m values as shown in the LIMO (e.g. see LIMO, ‘Scotland’ tab, row 1147, which is hard coded). We require this to understand if there is consistency between how Ofgem has calculated its RPE index and the way it has been converted into forecast allowances. |
| **Confidential [Yes/No]** | No |
| **DDQ raised by** | Danny Symes |
| **Date query raised** | 26/08/2020 |
| **Expected response date** | 02/09/2020 |
| **Ofgem Response:**  Item a) We cannot provide the notional cost structure calculations as they contain confidential data across GDNs and TOs.  Item b) Please see underlying data files attached.  Item c) Noted in Log: There is a compounding error that will be corrected.  Item d) Not sure of reference.  Item e) Not an error - provide details if you don’t agree with our approach in your consultation  Item f) Noted in Log: We have detected an error in calculation of the RPE index where we have not included the two years prior to RIIO2 in the calculation of the compounded position for RPEs in the input LIMO model. | |
| **Attachments:** See ZIP file for three attachments. | |