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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | CADENT \_DDQ\_91 |
| **Licence** | CADENT |
| **Topic/Activity:** | Ongoing Efficiency Formulae Errors 1 and 2 |
| **Question:** | At the Cadent/Ofgem bilateral on 5th August Cadent tabled its concern over an error on Ongoing Efficiency, that Ofgem had used 0.5% pa for Cadent (Cadent’s view of a fair central case for GDN ongoing efficiency) in it’s calculation of Average Embedded OE. This was due to our interpretation of the narrative and the fact that the DD calculated average of c.0.6% is what you get if you take the 0.5%pa for Cadent along with the Other GDNs (0.5%pa NGN, WWU and SGN 1%pa). This 0.6%pa, just does not sense check with Cadent’s 4 networks averaging 0.94%pa for embedded OE (as stated in our Business plan, Table 09.02) averaged with the Other GDNs, it should be around 0.9% pa  Since that meeting, a review of the file “[10] Ongoing Efficiency” has identified both errors in formulae and errors in data input (see DDQ92).  This DDQ covers the Formulae errors in tab “Inp\_NetworkOE\_GD” cells AK152-156.  To outline the error, the DDQ is using formulae in cell AK152  =1-(AK145/AG145)^(1/5)  NB the two errors do apply to all 5 rows.   1. **CAGR calculation of Average GDN OE**   But AG is 2021/22, so formulae is taking just 4 years productivity movement but formulae is dividing by 5 years.  The correct formulae is  =1-(AK145/AF145)^(1/5)  As a sense check, if you apply the formula to WWU only your erroneous formula gives a result of 0.4%, but WWU as you state in DD submitted 0.5%. Correct the formulae and you get correct result.   1. **Use of 5 years, it should be 7**   In file “[9] Allowances” the delta to average and your target is applied in 21/22 with a 3 year compounded value derived from these cells. As such the formulae in these cells should be calculating the 7 year average  This is an inconsistency in your logic flow, an error.  To correct this you need to change the formulae to calculate 7 year value, i.e. correct to  =1-(AK144/AD144)^(1/7)  Note: To make the 7 year formulae work, NGNs 2018/19 cells AD1112-116 will need to have the value 1.0 entered, they are currently blank  **Can you please confirm these two errors will be corrected ?** |
| **Confidential** | No |
| **DDQ raised by** | Adrian Swift |
| **Date query raised** | 13/08/2020 |
| **Expected response date** | 20/08/2020 |
| **Ofgem Response:**  **CAGR calculation of Average GDN OE**  We agree that Cadent was not correct in assuming we had used 0.5%p.a. in our ongoing efficiency assumption. We do however note that this reported value did not match those provide in the BPDT 2.12 table which we have proposed to use.  We have also noted in the error log that 5 years should reference the average reported embedded ongoing efficiency for year prior to the start of RIIO2.  The correct formula for cell AK152 should read:  =1-(AK144/AG144)^(1/5)  with the values for AG144 calculated from AVERAGE(AG80,AG88,AG96,AG104,AG112,AG120,AG128,AG136).  We also note that NGN values have not been compounded (by their reported 0.5% p.a.).  **Use of 5 years, it should be 7**  We do not agree the with position of Cadent on using 7 years in the calculation. Our proposed methodology is to estimate the average embedded ongoing efficiency over the GD2 period and use this in the calculation to estimate the overall long-term embedded efficiency average rate (though the CAGR calculation) over the full 7 years.  We choose this position given that data was inconsistent (some companies did not indicate any ongoing efficiencies during the remaining RIIO1 period, or indicated inefficiencies over this period, or did not start in 2018/2019 at 1. Subsequent SQ failed to adequately clarify this situation in some cases.  Furthermore, we noted that NGN had indicated a consistent OE throughput the period and proposed to follow this example.  If you do not agree with our proposed methodology, please provide a clear alternative in your response for us to consider. | |
| **Attachments:** | |