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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | NGN\_DDQ\_51 |
| **Licence** | Gas Distribution |
| **Topic/Activity:** | Repex Diversions |
| **Question:** | In our Business Plan document (pages 169 / 170) the RIIO-1 averages shown in the table reflected 6 year actuals.  Our forecast for RIIO-2 shows a moderate increase in this based on an anticipated upturn in economic activity and reviewing the number of requests for quotations received.  In Draft Determination our allowed workload volumes (based on lay) have been reduced from 65.1km to 24.8km – a reduction of 62% in workload volume with a corresponding 55% reduction in gross costs.  We now have the 2019 / 20 (RIIO-1 year 7) data available.  This is indeed higher than the 6-year average and our 7-year average gross cost actuals are within approximately 2.5% of our RIIO-2 forecast gross annual costs.  In the detailed workload calculations carried out in “[4] Diversions Cal\_WorkloadsAdj” Ofgem has calculated the allowed GD2 workloads at a very granular level (114 categories) and for each one of these individually the RIIO-2 allowance is based on the lower of (i) approximately the RIIO-1 average or (ii) the submitted RIIO-2 average.  We believe that this calculation is flawed and significantly underestimates our required workload in RIIO-2.  Forecasting diversions is difficult and contains a degree of uncertainty as it is primarily driven by third party activities.  The more granular the forecast, the higher the level of uncertainty.  For this reason, our forecast for the workload split through RIIO-2 was restricted to the three diameter band tiers and not disaggregated across eight categories.  It should be noted that the cost of carrying out diversion works is strongly driven by the diameter of the pipe being laid and is largely independent of the material of the diverted pipe to be abandoned so forecasting workload in this way has no cost implications.  Because of the way that the RIIO-2 workload allowance has been calculated, this has wrongly reduced our allowed workload.  For the categories where we included RIIO-2 workload, this has been reduced to approximately the RIIO-1 average.  For the other categories where we have had workload in RIIO-1 but rolled this into the three RIIO-2 categories for BPDT, our workload allowance has been set at zero.  Please can Ofgem confirm that our tracking for the reduction in workload is correct and advise why the large reduction has been made to our overall forecast workload. |
| **DDQ raised by** | Tony Pearson |
| **Date query raised** | 14/08/2020 |
| **Expected response date** | 21/08/2020 |
| **Ofgem Response:**  We can confirm that the NGN’s tracking described above is correct. Please refer to DD NGN annex chapter 3 and response to NGN\_DDQ\_4 for further explanation on rationale of the adjustment. We welcome you to include any further feedback on our proposed approach within your Draft Determinations consultation response. | |
| **Attachments:** | |