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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | SGN\_DDQ\_Q83 |
| **Licence** | SGN |
| **Topic/Activity:** | Cost Assessment |
| **Question:** | Relating to model ‘(7) CostAssessment’  The spreadsheet “[7] Cost Assessment”, tab “lnp\_Correction Factor” contains correction factor inputs. These are hard-coded inputs which the spreadsheet notes have been “calculated outside of the model using regression analysis”.  Could Ofgem please provide the underlying detail and calculations? |
| **Confidential [Yes/No]** | No |
| **DDQ raised by** | Danny Symes |
| **Date query raised** | 30/07/2020 |
| **Expected response date** | 06/08/2020 |
| **Ofgem Response:**  Please refer to the technical annex ‘RIIO-GD2 Step-by-Step Guide to Cost Assessment’ for the calculation steps of the correction factor. On page 19, para 1.68, we state:  “Indeed, as we used a logarithmic transformation of the data for our totex regression, the exponential transformation into costs would tend to underestimate modelled costs. To resolve this, we followed the RIIO-GD1 approach and multiplied modelled costs with an estimate of the expected value of residuals (ie the above mentioned alpha correction factor). The alpha correction factor corresponds to the estimated coefficient from a linear regression of normalised adjusted totex on those predicted from the selected model without a constant. The computed alpha factor was 1.002 (equal for all GDNs due to homoscedasticity), implying that the adjustment to totex due to the logarithmic transformation was minimal.” | |
| **Attachments:** | |