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| **Cadent Draft Determination** | | |
| **DD Query** | | |
| **SQ Reference number** | CADENT\_DDQ\_19 | |
| **Document Name** | RIIO-GD2 Draft Determination – Cadent  RIIO-GD2 Engineering Justification Papers Review Annex (QEM) | |
| **Topic/Activity:** | Governors | |
| **Question:** | Our analysis of the governors table in conjunction with the decision within the RIIO-GD2 Engineering Justification Papers Review Annex (QEM) has raised a question relating to the category in the BPDT “Housing Replacement Only”.  The QEM shows the Governors element of the EJP is accepted at £6.25m, this then leaves a balance of £8.35m based on the total of the Governor lines in tables 63 to 66 of the Cadent Annex (p72-75). Therefore, this leaves a shortfall on our requested “Housing Replacement Only” work to the order of £2.60m (we requested £10.95m and the allowance we are assuming is £8.35m).  Our analysis is attached for your information.    Could you please provide details on:   * the reason for the reduction in housings * how that reduction is calculated * how the reduction is made up (volume reduction/cost reduction or both) | |
| **DDQ raised by** | Adrian Shortland | |
| **Date Sent** | 16/07/2020 | |
| **Response Due Date** | 22/07/2020 | |
| **Response Received** |  | |
| The purpose of the QEM report was primarily to assess the needs case for specific investments and provide recommendations on whether volume reductions should be made and flag any potential issues regarding costs. As stated in the QEM report, no volume reductions were recommended based on their review of the Governors (District, I&C and Service) EJP. Hence, we did not adjust the volumes for this activity that were included in our modelling.  We assessed the costs for governors (including the costs associated with this EJP) as part of our totex regression. As explained in paragraph 3.148 of the Gas Distribution Annex, we have assessed some of the more common capex investment proposals with base costs in the totex model, instead of by technical assessment, which we carried out for the discrete capital investment proposals.  Where workloads are included within the totex regression, they are subject to any overall adjustments related to benchmarking and the application of the efficiency challenge for each network. Our modelling approach derives a totex allowance, inclusive of efficiency challenges, which is then disaggregated to provide allowances for specific activities. In other words, the allowances for specific activities are derived from the top-down, rather than the bottom-up.  The total proposed £17.2m for Governors was input to the totex model. Our model produces a proposed allowance of £14.6m for Governors, as you have seen in the Cadent Annex. The model reduction of £2.6m relates to the whole Governors cost category, rather than specifically for Housing Replacement Only, and captures the benchmarking adjustments and efficiency challenges applied in each of the networks. | | |
| Attachments: | | |