**RIIO-2 Draft Determinations Questions**

**Wales & West Utilities**

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| **Question reference:** | | WWU\_DDQ\_02 | | **Date Raised:** | 16/07/2020 | |
| **Subject:** | Innovation | | **Document reference:** | | Core Document  Pages 49-50 |

**Question -** completed by WWU

Please can you explain how CFEPA’s “0.2% annual ongoing efficiency” has, if at all, been applied in our allowances?

**Response -** completed by Ofgem

The 0.2% annual ongoing efficiency linked to innovation is added to our ongoing efficiency target across both opex and capex. The resulting Ongoing Efficiency target is then been used in setting our proposed allowance, net of the calculated embedded ongoing efficiency.

Details on the embedded ongoing efficiency incorporated our proposed view of costs (modelled and technically assessed) are provide in the ongoing efficiency model, which takes into account all submission from the GDNs (BPDT submission) and uses this to estimate the average ongoing efficiency included in our proposed view of costs.

The difference is applied (as for RPEs), as an annual rate compounded over the RIIO2 period.