**RIIO-2 Draft Determinations Questions**

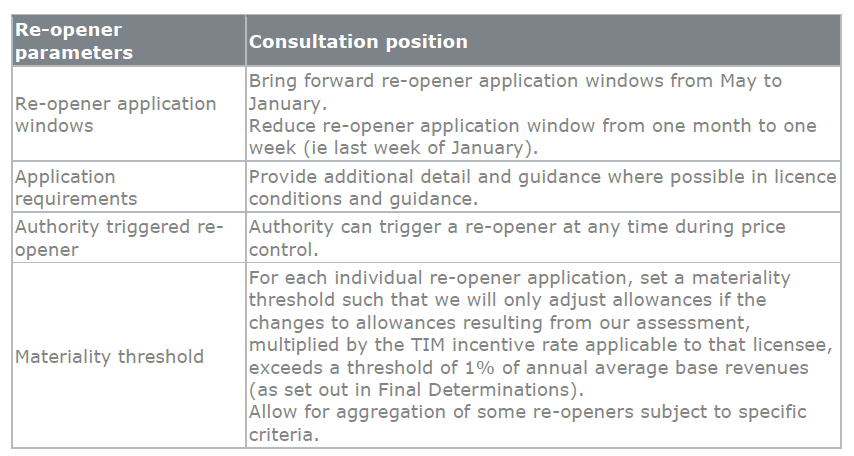
**Wales & West Utilities**

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| **Question reference:** | | WWU\_DDQ\_01 | | **Date Raised:** | 16/07/2020 | |
| **Subject:** | Uncertainty Mechanisms Threshold | | **Document reference:** | | Core Document  Page 60 |

**Question -** completed by WWU

Please can you provide a working example of how the ‘Materiality Threshold’ is calculated as we are struggling to interpret the words as they are currently drafted:

For each individual re-opener application, set a materiality threshold such that we will only adjust allowances if the changes to allowances resulting from our assessment, multiplied by the TIM incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenues.



**Response -** completed by Ofgem

Assume an annual average base revenue of £200m then the 1% materiality threshold is £2m.

A an indicative TIM incentive rate of 50%

If our assessment is that the trigger event will add £3m to expenditure then the application of the TIM would result in a figure of £1.5m which is below the materiality threshold. In this case allowances would not be increased

If our assessment is that the trigger event will add £5m to expenditure then the application of the TIM would result in a figure of £25m which is above the materiality threshold. In this case allowances would be increased by £5m

This methodology is the same as that which currently applies during the RIIO-1 period