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| **Draft Determination Publication** | |
| **Network Queries** | |
| **Network Reference number** | CADENT \_DDQ\_98 |
| **Licence** | CADENT |
| **Topic/Activity:** | Ongoing Efficiency Formula Error 3 |
| **Question:** | This DDQ follows on to earlier questions CADENT \_DDQ\_91 and, CADENT \_DDQ\_92. As well as the formulae and data errors identified in these two questions we add a further formulae error.  The formulae used is calculating the CAGR, however this is under-estimating the value of the embedded ongoing efficiency, especially associated with Cadent’s embedded cost efficiencies associated with our current transformation programme.  CAGR ignores the fact that overall Average Embedded Efficiencies are front loaded, i.e. higher productivity assumptions in years 2019/20 to 2021/22.  The following graphic and table for Opex-Direct illustrates this, with the under estimate amounting to 1.1%:      Note on above – it takes the DD file data, ie the invalid NGN and Cadent figures, hence the spike up in 2019/20, correcting the data still gives the under-estimating.  In addition, we would assert that a further adjustment should be taken into account to account for time value of money.  **Can you please confirm that this error will be corrected and that time value of money should also be factored in.** |
| **Confidential** | No |
| **DDQ raised by** | Adrian Swift |
| **Date query raised** | 14/08/2020 |
| **Expected response date** | 21/08/2020 |
| **Ofgem Response:**  The current proposed calculation for embedded ongoing efficiency calculates the CAGR over the RIIO2 period. To estimate the starting position, the reference year 2021 (from the model) should have been used.  We did not include any potential “front loading”, involving higher productivity assumptions in the remaining years of RIIO1, nor believe they should be included as they relate to expenditure in RIIO1 (this may contribute to reducing catch up inefficiencies / over performance associated with the RIIO1 price control).  We have taken a longer-term view of the average embedded productivity gains estimated from our calculation and applied these to all years for RIIO-GD2 calculation. | |
| **Attachments:** | |