

Repex WG

17th September 2020



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17/09/20

1. Summary of feedback to DDs
2. PCD dataset
3. Tier 1 mains workload categories
4. Tier 1 mains over-delivery mechanism
5. Unit cost approach

	Using decommissioned data	Categories	Setting unit costs	Over-delivery
NGN	Agree – aligns with HSE, one-step PCD, project design optimisation	8 categories – DB and material	Consistency concerns between TD/BU. Prefer GDN-specific cost curves.	2% cap is too tight . Under and over-delivery should be treated symmetrically .
SGN	Problematic due to assumptions (data robustness) and timing	4 categories – DB only	Cannot comment without visibility on SGN UCs and more time. Concerns over industry average .	Support mechanism. Suggest +/- 3% cap. Note disconnect between TD/BU.
WWU	Agree in theory , concerns over data use in practice	8 categories – DB and material	Consistency concerns between TD/BU. Concerns over industry average .	Support mechanism. Suggest 5-10% .
Cadent	Disagree –data reliability/ comparability, no evidence of consumer benefit	4 categories – DB only	Consistency concerns between TD/BU. General concerns over SUC approach .	Suggest no cap for overdelivery .

	Categories	Setting unit costs	Over-delivery
NGN	Suggest also splitting out non-metallic	Consistency concerns between TD/BU. Prefer GDN-specific cost curves	Agree with mechanism. Do not support cap on overdelivery.
SGN	Agree with 4	Cannot comment without visibility on SGN UCs and more time. Concerns over use of industry average .	Agree with mechanism and +/- 10% cap.
WWU	Agree with 4	Consistency concerns between TD/BU	Supports mechanism. Thinks 10% is too tight, but suggests 10-20% . Also supports no cap to remove NARM interaction.
Cadent	Disagree with domestic vs non split – prefer just relay/transfer split	Consistency concerns between TD/BU. General concerns over SUC approach.	Agree to base adjustments on volume. Suggest no cap for over-delivery . Under and over-delivery should be treated symmetrically

Only a select number of third parties commented specifically on repex PCD questions. Relevant points are summarised below.

Centrica

- Agree with: use of PCD; Workload activity specification; Adjustment mechanism

Cadent CEG

- Agree with banded workloads
- Concerns over use of decommissioned data due to: limited workloads / lack of consumer benefit; administrative burden; data robustness issues stemming from short timeframe and assumptions; and potential for perverse incentives with data inaccuracy
- Efficiency concerns from “unnecessary control” over services as workloads are driven by mains

NGN CEG

- Penalising companies over-delivery is “nonsensical” because due to minimal bill impact and high consumer value (safety)

Although not directly related to the questions, NGN CEG and Sustainability First both raised concerns over the environmental impact of the repex program and mechanism.

Our current minded-to position is to use the dataset based on mains decommissioned for the PCD.

Reasoning	Concerns	Response
<ul style="list-style-type: none"> • Alignment with HSE • Improves project design and allows the GDNs the flexibility to decide whether to upsize or downsize • Simpler PCD design • Ensures collection of decommissioned data for GD3 	<ol style="list-style-type: none"> 1. Data consistency / reliability 2. Administrative burden of data collection 	<ol style="list-style-type: none"> 1. Greater aggregation of workload categories (see following slides). Request additional QA from GDNs of decommissioned data 2. Reporting systems/ data collection require updating between price controls

Do you have any comments on the proposed dataset?

Our current minded-to position is to use 4 diameter band workload categories only for the PCD.

Reasoning	Concerns	Response
<ul style="list-style-type: none"> Prevents systematic reduction in the diameter of delivered work Mitigates concerns over reliability and comparability of decommissioned data 	<ol style="list-style-type: none"> Not fully capturing different drivers of costs 	<ol style="list-style-type: none"> Capture more granular data in GD2 and consider for GD3. Impact of material type on mains replacement costs is ambiguous based on the data available. Replacement technique should be captured by diameter band.

Do you have any comments on the proposed categorisation of workloads?

Our current minded-to position is to allow some over delivery with the PCD value cap – i.e. value cap is based on outturn mix **and** workload.

Over-delivery beyond the cap will not be funded through PCD or NARM but will go through the TIM.

Reasoning	Concerns	Response
<ul style="list-style-type: none"> Addresses concerns re: <ul style="list-style-type: none"> over-delivery penalisation; symmetrical treatment of off-target delivery; HSE targets and bill impact. Removes NARM interaction - decreases complexity Workload flexibility 	<ol style="list-style-type: none"> 2% cap level is too restrictive 	<ol style="list-style-type: none"> The cap level remains subject to further sensitivity testing

Do you have any comments on the proposed mechanism for over-delivery?

We have developed **three options** for calculating PCD unit costs, which we intend to use broadly across price control PCDs and volume drivers (where applicable).

These options aim to mitigate the concerns raised over **consistency** between the totex allowance and bottom-up adjustments made through the PCDs.

Option 1: Set different unit costs for each GDN; allocates Top Down (TD) allowance based on scaled **industry average synthetic unit cost curve**

Option 2: Set different unit costs for each GDN; allocates TD allowance based on a **GDN-specific cost curve** based on business plan submissions

Option 3: Sets **notional efficient unit costs for the industry** that are adjusted for regional factors. The notional efficient unit costs aim to reflect the average catch-up and ongoing efficiency challenge across the industry.

We have developed three options for calculating unit costs.

Option 1

- 1 Calculate industry average synthetic unit costs (IA SUCs) for T1 mains
- 2 Calculate T1 mains bottom-up allowances for each GDN
*IA SUCs * adjusted workloads*
- 3 Take top-down T1 mains efficient allowance from disagg model
- 4 Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5 Adjust IA SUCs by UC adjustment factor

Option 2

- 1 Calculate cost efficiency adjusted unit costs (CEA UCs)
*GDN submitted GD2 UCs * repex cost efficiency factor*
- 2 Calculate T1 mains bottom-up allowances for each GDN
*CEA Ucs * adjusted workloads*
- 3 Take top-down T1 mains efficient allowance from disagg model
- 4 Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5 Adjust efficient GDN submitted UCs by UC adjustment factor

Option 3

- 1 Calculate industry average unit costs following SUC approach
- 2 Reverse regional factor adjustments
- 3 Apply industry average catch-up efficiency challenge
- 4 Apply ongoing efficiency

What are your views on each of the proposed options and why?

Option 1

- 1** Calculate industry average synthetic unit costs (IA SUCs) for T1 mains
- 2** Calculate T1 mains bottom-up allowances for each GDN
*IA SUCs * adjusted workloads*
- 3** Take top-down T1 mains efficient allowance from disagg model
- 4** Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5** Adjust IA SUCs by UC adjustment factor

	GDN 1	GDN 2	GDN 3	Industry
Historical GD1 costs	88	102	110	300
Historical GD1 workload	8	10	14	32
Unit cost	11.00	10.20	7.86	9.38
Submitted GD2 workload	9	11	16	
IA SUC	9.38	9.38	9.38	
Bottom up allowance	84.38	103.13	150.00	
Top down allowance	80	103	155	
UC adj. factor	0.95	1.00	1.03	
Adjusted IA SUC	8.89	9.36	9.69	

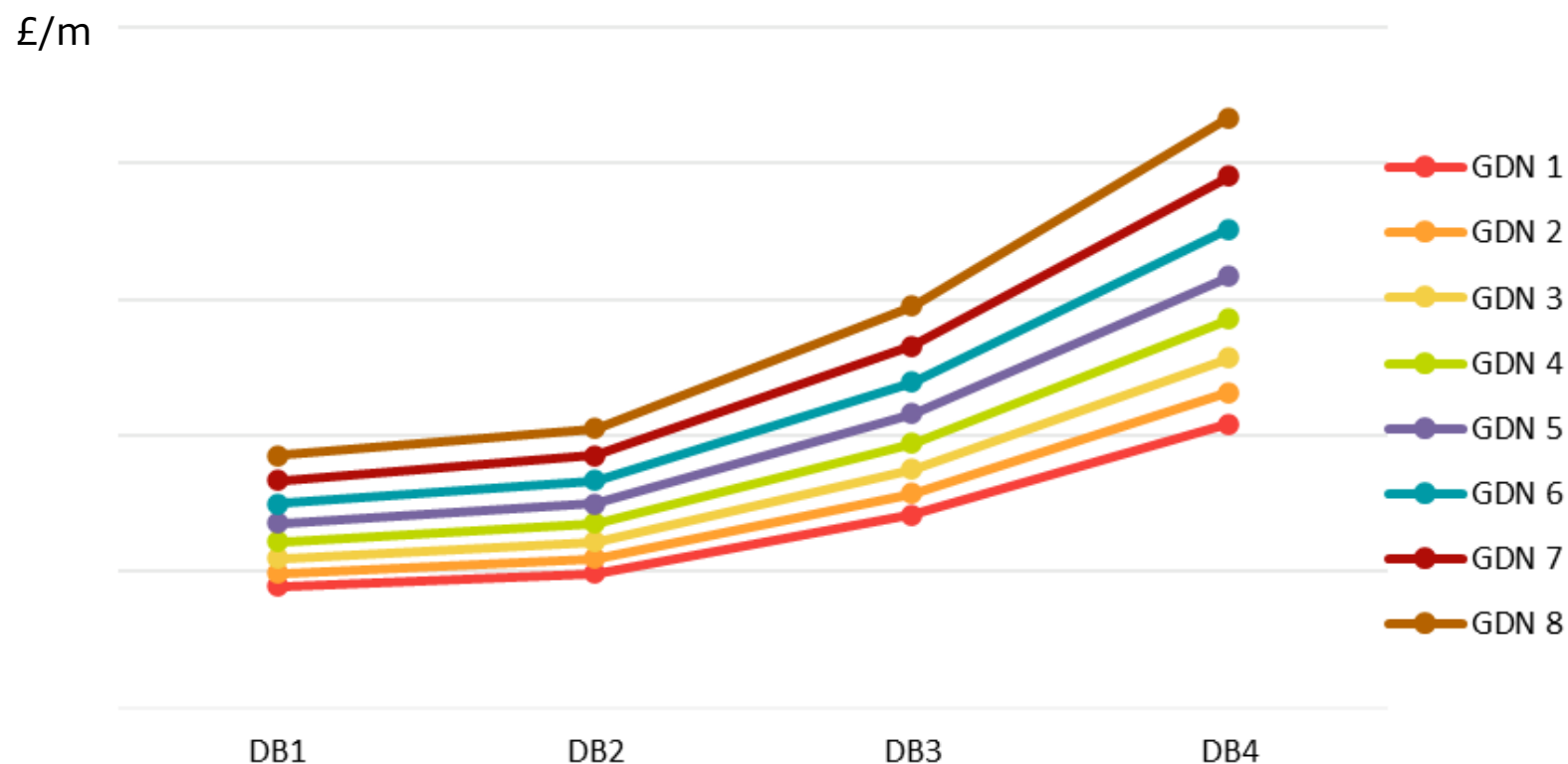
IA SUC

Multiplied by

Option 1

- 1 Calculate industry average synthetic unit costs (IA SUCs) for T1 mains
- 2 Calculate T1 mains bottom-up allowances for each GDN
*IA SUCs * adjusted workloads*
- 3 Take top-down T1 mains efficient allowance from disagg model
- 4 Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5 Adjust IA SUCs by UC adjustment factor

The industry average cost curve moves up or down based on business plan submission and relative cost challenges, but relative differences between UCs remain the same



Option 2

- 1** Calculate cost efficiency adjusted unit costs (CEA UCs)
*GDN submitted GD2 UCs * repex cost efficiency factor*
- 2** Calculate T1 mains bottom-up allowances for each GDN
*CEA UCs * adjusted workloads*
- 3** Take top-down T1 mains efficient allowance from disag model
- 4** Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5** Adjust efficient GDN submitted UCs by UC adjustment factor

	GDN 1	GDN 2	GDN 3
Submitted GD2 costs	90	100	155
Submitted GD2 workload	9	11	16
Unit cost	10.00	9.09	9.69
Totex cost efficiency factor	0.98	0.97	0.95
CEA UCs	9.8	8.8	9.2
Forecast GD2 workload	9	11	16
CEA UCs	9.80	8.82	9.20
Bottom up allowance	88.20	97.00	147.25
Top down allowance	88.00	97.00	147.00
UC adj. factor *	1.00	1.00	1.00
Adjusted CEA UCs	9.8	8.8	9.2

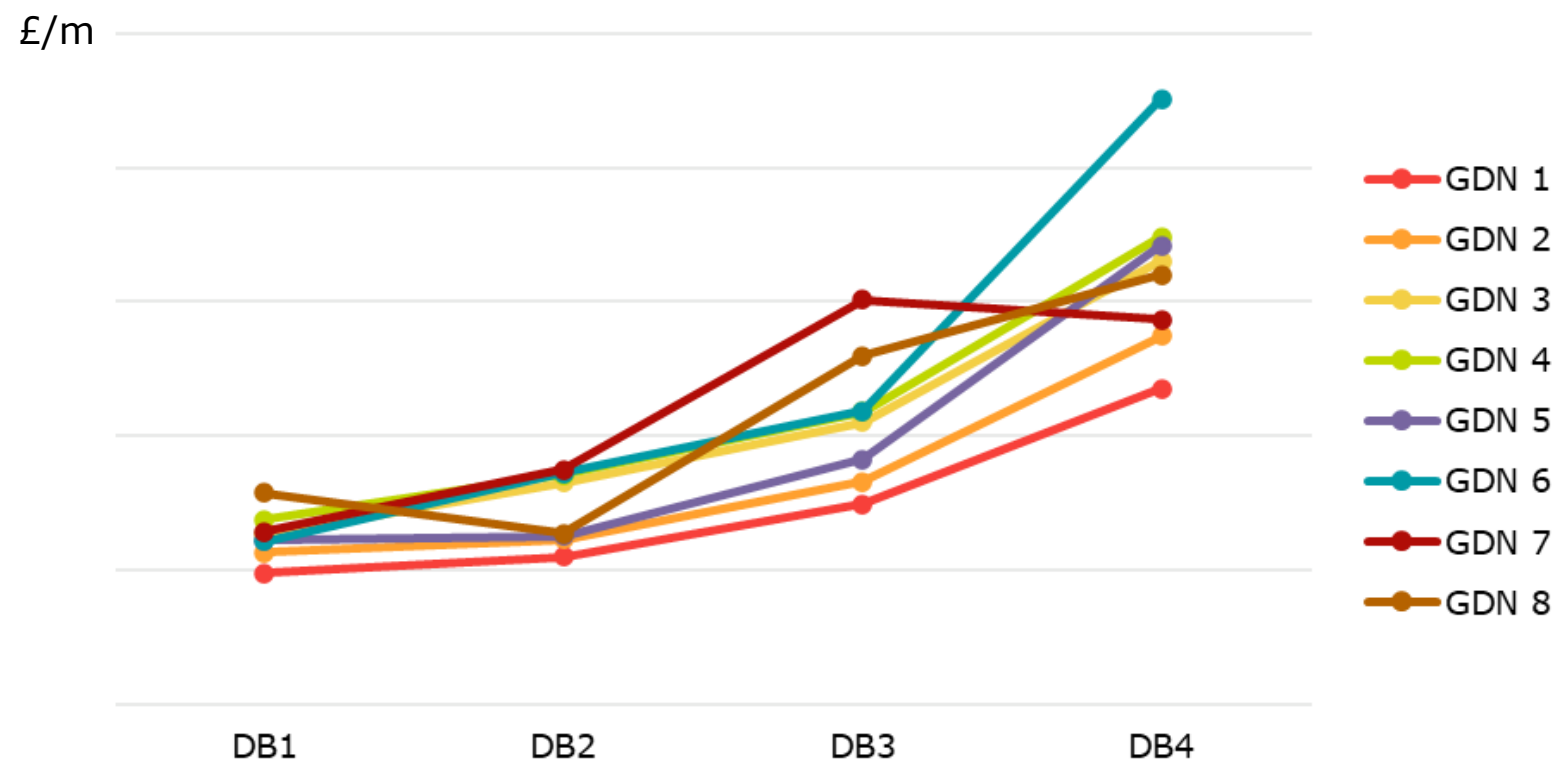
Multiplied by

* In practice, the UC adjustment factor will be calculated on **total TD/BU allowance ratio** and **applied across all diameter bands**. This example structure is for illustrative purposes only.

Option 2

- 1** Calculate cost efficiency adjusted unit costs (CEA UCs)
*GDN submitted UCs * repex cost efficiency factor*
- 2** Calculate T1 mains bottom-up allowances for each GDN
*CEA UCs * adjusted workloads*
- 3** Take top-down T1 mains efficient allowance from disag model
- 4** Calculate UC adjustment factor
Top down allowance / bottom up allowance
- 5** Adjust efficient GDN submitted UCs by UC adjustment factor

Cost curves are GDN specific, based on submitted data.



Option 3

- 1 Calculate industry average unit costs following SUC approach
- 2 Reverse regional factor adjustments
- 3 Apply industry average catch-up efficiency challenge
- 4 Apply ongoing efficiency

IA SUC

Regional adj.
Ratio of IA SUC to company unit cost
Reverse regional adj.
IA SUC after reversal of regional factors,
before catch-up challenge

Industry average catch-up efficiency
challenge

IA SUC after reversal of regional factors
and industry average catch-up challenge

Ongoing efficiency factor

IA SUC after reversal of regional factors,
industry average catch-up challenge and
ongoing efficiency

GDN1				
2022	2023	2024	2025	2026
10.0	10.0	10.0	10.0	10.0
-0.72	-0.72	-0.72	-0.72	-0.72
0.96	0.96	0.96	0.96	0.96
0.69	0.69	0.69	0.69	0.69
10.69	10.69	10.69	10.69	10.69
95%	95%	95%	95%	95%
10.18	10.18	10.18	10.18	10.18
0.98	0.97	0.96	0.95	0.95
9.95	9.87	9.79	9.71	9.63

1. Feedback on the content of today's session to be provided via email by COP Friday, 25 September
2. Ofgem to provide GDNs with aggregated decommissioned dataset based on submission. GDNs to undertake QA and provide response to Ofgem by COP Friday, 25 September.
 - Any changes must be identified and accompanied by a clear explanation.

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