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| **SGN Final Determination** | |
| **FDQ Query** | | | |
| **Reference number** | | SGN\_FDQ\_026 | |
| **Document Name** | | RIIO-2 Final Determinations GDN Annex | |
| **Topic/Activity:** | | Error in FPNES allowances | |
| **Question:** | | Ofgem’s response to FDQ-18 sets out that  *“Our approaches to FPNES policy and to setting unit costs are set out in the GD Annex. Our decision on the approach to setting unit costs reflects our choice of methodology from the options consulted on through the Repex Working Group.”*  Your response does not address our query, or our concerns, and does align with our record of events.   * At the Repex working group on 30th July there were no slides covering connections * At the Repex working group on 20th August there were two slides (Pages 26 & 27) at the end of the pack covering connections unit costs. As these were not included in the agenda, they were clearly a late addition to the slide pack, and there was no discussion other than a brief reference to them, in the meeting. * At the Repex working group on 17th September there were no slides covering connections and a lost opportunity to address a matter that had not been adequately covered at the August meeting.   Concerning the 20th August meeting, the ‘agenda’ did not include connections:    Concerning the lack of discussion regarding methodology the two slides are presented below (slides 26 and 27).      Firstly, the material presented and discussed in the working group meetings was solely focussed on setting iron mains ‘decommissioning’ unit costs reconciling to the top down Totex regression. This has no relationship with connection unit costs.  Secondly, given the nature of the connections costs being a volume driver rather than a fixed PCD, or deliverable, there is no reason to anticipate that the methodology used to derive the costs would be equivalent. Rather there are direct errors created by maintaining the same methodology.  Finally, the result presented in August showed a close clustering of unit costs, whilst the slides were not discussed, this would not have indicated an underlying error. This is not the case in the observed costs concluded in the final determination and the subject of this FDQ.  As such the statement “*Our decision on the approach to setting unit costs reflects our choice of methodology from the options consulted on through the Repex Working Group”* is incorrect and does not provide confidence that an error is not present.  Given the radical change in the distribution of unit costs between the results included in the slides in August and the final determination, it appears that either the error has been introduced since these original results were presented or that the original methodology was flawed.  Please can you provide a step by step explanation of the methodology used and a detailed trace of the calculations you have completed in order to arrive at the final determination allowances given. The values we have found in the files released are hard coded with no ability to trace formulas or calculations.  Can you also confirm whether any networks changed their unit costs between DD and FD, as such a change may account for this change.  If you do not agree then please explain why such significant differences exist in allowed costs that go well beyond differences in relative efficiency between GDNs. | |
| **Confidential** | | No | |
| **FDQ raised by** | | SGN | |
| **Date Sent** | | 07/01/2021 | |
| **Ofgem Response** | | Having reviewed our response to FDQ\_18, we note that our response is potentially ambiguous and therefore we think it is important to clarify what we were intending to reference.  Our reference to the “*choice of methodology from the options consulted on through the Repex Working Group*” in FDQ\_18 was with respect to the different options for the methodology used to set unit costs, which were presented and discussed at the Repex Working Group on 17th Sept 2020. At this working group session, we presented three potential approaches to calculating unit costs, under the agenda point “5. Unit cost approach”.    We also noted that “*we have developed three options for calculating PCD unit costs, which we intend to use broadly across price controls PCDs and volume drivers (where applicable)*” (slide 9 from the 17 Sept 2020 Repex WG)    While there may not have been a specific discussion with respect to FPNES unit costs, our intention to apply the same approach to calculating unit costs for PCDs and volume drivers was made explicit, as noted in the above slide.  As noted in FDs, we applied a 5 step methodology to calculate unit costs from top-down allowances, summarised in the diagram below (included on p.131 of the GD Annex)     1. We calculated IA SUCs based on submitted data and we applied the same rules as for Repex and Capex SUCs. The connections values in the Inp\_IA\_SUCs sheet come from the Capex\_Synthetic\_Unit\_Cost\_Model file. 2. Calculate the BU mains allowance – these calculations are located in the Cal\_BUallowance sheet in the PCD\_VD\_UnitCostModel\_noRPEs file. 3. Top-down allowances – these are calculated in the Allowances\_PCD\_VD\_noRPEs file, summarised I the Out\_DisagAllow\_Final sheet. 4. Calculate the UC adjustment factor – these calculations are done in the Cal\_TDvsBU sheet in the PCD\_VD\_UnitCostModel\_noRPEs file 5. Adjust IA SUCs by UC adjustment factor – the calculation are done in the Cal\_UnitCosts sheet and summarised in the Out\_UnitCost sheet of the PCD\_VD\_UnitCostModel\_noRPEs file.   The tables below show submitted FPNES unit costs for Draft and Final Determinations for each network.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  |  | **Draft Determinations** | | | | | | **EoE** | **Units** | **2022** | **2023** | **2024** | **2025** | **2026** | | FPNES - services | £/service | 2299 | 2299 | 2299 | 2299 | 2299 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **Lon** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **NW** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **WM** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **NGN** |  |  |  |  |  |  | | FPNES - services | £/service | 1998 | 1998 | 1998 | 1998 | 1998 | | FPNES - mains <180mm | £/km | 125046 | 125046 | 125046 | 125046 | 125046 | |  |  |  |  |  |  |  | | **Sc** |  |  |  |  |  |  | | FPNES - services | £/service | 1479 | 1478 | 1465 | 1456 | 1470 | | FPNES - mains <180mm | £/km | 127459 | 127322 | 125888 | 124889 | 126474 | |  |  |  |  |  |  |  | | **So** |  |  |  |  |  |  | | FPNES - services | £/service | 1677 | 1681 | 1668 | 1661 | 1678 | | FPNES - mains <180mm | £/km | 246304 | 247318 | 245203 | 244291 | 247776 | |  |  |  |  |  |  |  | | **WWU** |  |  |  |  |  |  | | FPNES - services | £/service | 1662 | 1807 | 2157 | 2682 | 3558 | | FPNES - mains <180mm | £/km | 143064 | 142583 | 170193 | 211593 | 280719 |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  |  | **Final Determinations** | | | | | | **EoE** | **Units** | **2022** | **2023** | **2024** | **2025** | **2026** | | FPNES - services | £/service | 2299 | 2299 | 2299 | 2299 | 2299 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **Lon** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **NW** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **WM** |  |  |  |  |  |  | | FPNES - services | £/service | 2650 | 2642 | 2634 | 2626 | 2618 | | FPNES - mains <180mm | £/km | - | - | - | - | - | |  |  |  |  |  |  |  | | **NGN** |  |  |  |  |  |  | | FPNES - services | £/service | 1998 | 1998 | 1998 | 1998 | 1998 | | FPNES - mains <180mm | £/km | 125046 | 125046 | 125046 | 125046 | 125046 | |  |  |  |  |  |  |  | | **Sc** |  |  |  |  |  |  | | FPNES - services | £/service | 1479 | 1478 | 1465 | 1456 | 1470 | | FPNES - mains <180mm | £/km | 127459 | 127322 | 125888 | 124889 | 126474 | |  |  |  |  |  |  |  | | **So** |  |  |  |  |  |  | | FPNES - services | £/service | 1677 | 1681 | 1668 | 1661 | 1678 | | FPNES - mains <180mm | £/km | 246304 | 247318 | 245203 | 244291 | 247776 | |  |  |  |  |  |  |  | | **WWU** |  |  |  |  |  |  | | FPNES - services | £/service | 1566 | 1715 | 2047 | 2548 | 3382 | | FPNES - mains <180mm | £/km | 313365 | 306644 | 364943 | 449611 | 594571 | | |
| **Date Original Question was sent** | | 17/12/2020 | |
| **Original Question SGN\_FDQ\_018** | | In GD1 there was a consistent allowance rate across GDNs for all networks to support the development of Fuel Poor Network Extension. The table below shows a wide variation in allowances and this change of policy was not discussed and has produced inconsistent allowances.  This is clearly set out in the table below where network companies that have taken on the highest level of ambition also have the lowest unit costs for delivery. This is illogical as a more challenging target will incur higher costs associated with securing more challenging sites in order to deliver that target.  Secondly network companies that have been most inefficient in delivering their FPNES connections in GD1 have been rewarded for this inefficiency with both higher unit costs and lower overall reductions.  On the basis that this must be an error, can Ofgem either correct this so that all networks have an equivalent allowance consistent with the policy approach seen in GD1 and ensure any differences are clearly attributable to regional factors?  If not, then can Ofgem set out why they do not consider this to be an error and the basis on which they have made their assessment and changed policy?   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **GD1 Average BPDT** | **GD2 Average BPDT** | **FPNES Volume Driver Unit Cost** | **% changes BPDT to FD** | **% difference to most efficient unit cost** | **GD2 Target Workload** | | SGN - Scotland | £1,403 | £1,768 | £1,440 | -19% | 0% | 13,000 | | SGN - Southern | £1,471 | £2,168 | £1,507 | -30% | 5% | 5,000 | | NGN | £1,963 | £2,526 | £1,946 | -23% | 35% | 5,000 | | WWU | £2,397 | £3,561 | £2,107 | -41% | 46% | 2,500 | | Cadent - East of England | £2,181 | £2,634 | £2,046 | -22% | 42% | 2,050 | | Cadent - London | £2,490 | £2,634 | £2,037 | -23% | 41% | 500 | | Cadent - North West | £2,165 | £2,299 | £2,317 | 1% | 61% | 2,250 | | Cadent - West Midlands | £2,598 | £2,634 | £2,438 | -7% | 69% | 1,450 | | |
| **Ofgem Response to SGN\_FDQ\_018** | | Our approaches to FPNES policy and to setting unit costs are set out in the GD Annex. Our decision on the approach to setting unit costs reflects our choice of methodology from the options consulted on through the Repex Working Group.  We will update unit costs to reflect any errors that impact totex or the calculation of unit costs. However, we will not change any of our decisions with respect to the methodology used to calculate unit costs for FD. | |
| **Date of Ofgem Response** | | 6th January 2021 | |