|  |  |  |  |
| --- | --- | --- | --- |
| **Cadent Final Determination** | | | |
| **FDQ Query** | | | |
|  | | **SQ Reference number** | CADENT\_FDQ\_  19 | |
|  | | **Priority** | High | |
|  | | **Document Name** | [9]Allowances\_File\_GD\_noRPEs and [9]Allowances\_File\_GD\_incRPEs | |
|  | | **Topic/Activity:** | Application of glidepath to derive allowances | |
|  | | **Question:** | We have identified an error on the application of the glidepath to derive allowances, which results in allowances being too high in the first half of GD2 and too low in the second half of GD2.  In the file [9] Allowances\_File\_GD\_noRPEs, the glidepath is calculated in the sheet Cal\_EfficientCosts (rows 53 – 60). This is then picked up in row 12 of the GDN specific allowances sheets (e.g. Cal\_EoE). However, the totex profile is not maintained in the disaggregation of totex or the application of the frontier shift. Instead the sheet takes the percentage difference between total modelled costs (post catch up efficiency challenge) and the total modelled component of submitted costs and applies this to the disaggregated submitted costs.  As a result, the allowances in first two years of GD2 are more generous than intended, and in the last two years of GD2 are more challenging than the 85th percentile. For example, for our London network the approach results in allowances that are in total £51m too high in the first two years, and £51m too low in the last three years.  The table below illustrates this issue and compares the glidepath calculated in Cal\_EfficientCosts to the profile used to calculate allowances. Note the costs in the table are modelled costs (post catch up efficiency but pre-ongoing efficiency).   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **2022** | **2023** | **2024** | **2025** | **2026** | **Total** | | **Glidepath in Cal\_EfficientCosts** | | |  |  |  |  | | EoE | 306.14 | 315.79 | 324.76 | 315.18 | 299.10 | 1,560.98 | | Lon | 212.27 | 233.79 | 259.19 | 256.39 | 256.26 | 1,217.89 | | NW | 228.23 | 228.62 | 230.09 | 220.63 | 200.87 | 1,108.44 | | WM | 160.60 | 170.61 | 188.19 | 184.51 | 179.97 | 883.88 | | NGN | 240.77 | 239.79 | 239.61 | 239.25 | 234.12 | 1,193.53 | | Sc | 174.23 | 175.27 | 175.12 | 173.84 | 172.04 | 870.50 | | So | 359.46 | 361.12 | 359.32 | 355.17 | 354.07 | 1,789.15 | | WWU | 236.32 | 238.40 | 238.85 | 237.77 | 237.02 | 1,188.37 | |  |  |  |  |  |  |  | | **Glidepath in Allowances sheets (e.g. Cal\_EoE)** | | | |  |  |  | | EoE | 319.31 | 318.66 | 319.03 | 306.73 | 297.25 | 1,560.98 | | Lon | 248.59 | 248.67 | 246.97 | 239.68 | 233.99 | 1,217.89 | | NW | 230.55 | 229.96 | 225.30 | 213.80 | 208.83 | 1,108.44 | | WM | 178.97 | 179.11 | 181.72 | 173.08 | 170.99 | 883.88 | | NGN | 239.10 | 241.49 | 239.10 | 238.04 | 235.79 | 1,193.53 | | Sc | 174.91 | 182.42 | 174.62 | 169.62 | 168.93 | 870.50 | | So | 350.21 | 363.75 | 363.23 | 356.99 | 354.98 | 1,789.15 | | WWU | 247.28 | 236.40 | 232.62 | 235.06 | 237.02 | 1,188.37 | |  |  |  |  |  |  |  | | **Difference** |  |  |  |  |  |  | | EoE | 13.17 | 2.87 | -5.73 | -8.46 | -1.86 | 0.00 | | Lon | 36.32 | 14.88 | -12.22 | -16.71 | -22.27 | 0.00 | | NW | 2.32 | 1.35 | -4.79 | -6.83 | 7.96 | 0.00 | | WM | 18.37 | 8.50 | -6.47 | -11.43 | -8.98 | 0.00 | | NGN | -1.67 | 1.71 | -0.50 | -1.20 | 1.67 | 0.00 | | Sc | 0.67 | 7.16 | -0.50 | -4.23 | -3.11 | 0.00 | | So | -9.25 | 2.62 | 3.90 | 1.82 | 0.91 | 0.00 | | WWU | 10.96 | -2.01 | -6.23 | -2.71 | -0.01 | 0.00 |   Could you please confirm this is an error and provide a corrected allowances file. | |
|  | | **Confidential** | No | |
|  | | **FDQ raised by** | Kate Haycock | |
|  | | **Date Sent** | 7 January 2021 | |
|  | | **Response Due Date** | 11 January 2021 | |
|  | | **Attachments:** | | |
|  | | **Response to Cadent:**  Our application of a scaling factor to submitted costs results in a time profile for the allowances in line with submitted costs. We deemed this approach to be appropriate. Therefore, our view is this is not an error. | | |