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| **Cadent Final Determination** | | | |
| **FDQ Query** | | | |
|  | | **SQ Reference number** | CADENT\_FDQ\_ | |
|  | | **Priority** | High | |
|  | | **Document Name** | FD modelling suite | |
|  | | **Topic/Activity:** | Repair add-back re disallowed Repex workload -errors | |
|  | | **Question:** | At FD Ofgem made adjustments to uplift Repair costs in the Normalisation files to reflect the increase in Repair costs associated with the disallowance of Repex workload.  We have identified 3 errors associated with the add-backs:   1. WWU has no add-back despite the WWU Annex (page 19) showing disallowed Repex workloads, which should cause additional Repair workload and consequently an add-back. This impacts all GDNs given that WWU appears to influence the efficient costs benchmark. 2. The adjustments for NW and WM GDNs are incorrect, as they are held at the exact same amount for each year of the RIIO-2 period, unlike other GDNs. The adjustments are shown below.      1. The Repair adjustment has only been made to Normalised Repair costs - no adjustment has been made to workload as measured by the number of Reports. This is incorrect because the adjustment is in respect of additional work. Furthermore, it distorts the regression because Reports are a component part of the CSV.   Please could Ofgem acknowledge each of these errors, and the proposed solutions. | |
|  | | **Confidential** | No | |
|  | | **FDQ raised by** | Jeremy Thomson | |
|  | | **Date Sent** | 05/01/2021 | |
|  | | **Response Due Date** | 08/01/2021 | |
|  | | **Attachments:** | | |
|  | | **Response to Cadent:**   1. Opex add backs were only calculated for asset management repex mains categories. Furthermore, WWU did not change its workload forecasts for repex between DD and FD. At FD we allowed in full WWU’s asset management repex workloads, meaning there was no add back required.   While we also allowed in full asset management workloads for Cadent and SGN at FD, both companies made changes to their workload forecasts between DD and FD, so the add backs we applied for SGN and Cadent account for the net difference between these workload forecasts, rather than workload disallowances per se. For NGN, the add backs are directly related to workload disallowances for asset management repex workloads (forecast workloads did not change between DD and FD for NGN).   1. For NW and WM, we decided to use the value of the opex adjustment provided by Cadent in its consultation response and applied this consistently across each year of the price control. 2. We do not agree the adjustments to the cost driver have not been captured in the modelling. Referring to the CostDriver file, Row 28 (for example) in the Cal\_Drivers and Cal\_DriversAdj sheets shows different values, with the latter being higher to reflect the uplift resulting from adjustment to external condition reports (Inp\_ReportsAdj) due to disallowed repex. The values in Inp\_ReportsAdj are consistent with those in the opex adjustment model shared by Ofgem (see Cadent\_FDQ\_13). | | |