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| **Cadent Final Determination** | | | |
| **FDQ Query** | | | |
|  | | **SQ Reference number** | CADENT\_FDQ\_ | |
|  | | **Priority** | High – Technical Error | |
|  | | **Document Name** | FD modelling suite | |
|  | | **Topic/Activity:** | Ongoing Efficiency Add back | |
|  | | **Question:** | We believe that we have found an error in the Ongoing Efficiency add back in the normalisation files which explain why the pre-modelling Ongoing Efficiency (OE) adjustment appears to be too small for NW and WM when compared to EOE and Ln and Ofgem’s assumption/decision of 0.5% pa.  We note the application of this adjustment on a line-by-line basis in sheet “Cal\_SubmittedCostsOEAdj” in each company’s normalisation file, for all controllable costs.  For most categories of cost, it correctly divides submitted costs by the OE index.  However, for NW and WM, it *multiplies* submitted costs by the index for all work management and work execution lines (i.e. rows 15 to 24 & 99 to 108 of sheet “Cal\_SubmittedCostsOEAdj”), meaning it removes the additional OE adjustment, rather than adding it.  We’ve checked the four non-Cadent GDNs, and this error doesn’t affect their modelled costs; therefore, since Ofgem understates Cadent GDN’s modelled costs, fixing this error is likely to increase Cadent’s allowances.  We show below a comparison of the FD verses our corrected pre-model adjustment (i.e. equivalent to the information in Table 10 of the GD annex), increasing NW normalised costs by £15m over RIIO-2, and WM by £11m.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | Pre model | | Correction |  | |  | |  | FD | Corrected |  |  |  | | **EoE** | 32 | 32 | 0 |  |  |  | | **Lon** | 29 | 29 | 0 |  |  |  | | **NW** | 9 | 24 | +15 |  |  |  | | **WM** | 8 | 19 | +11 |  |  |  |   Please confirm that this OE addback in NW and WM is a Technical Error | |
|  | | **Confidential** | No | |
|  | | **FDQ raised by** | Adrian Swift | |
|  | | **Date Sent** | 16/12/2020 | |
|  | | **Response Due Date** | 21/12/2020 | |
|  | | **Attachments:** | | |
|  | | **Response to Cadent:**   * Thanks for pointing this out. We agree this is an error, which we will correct. We will collate all confirmed technical errors to conduct a final error corrected FD model run in January. | | |