

RIIO-GD2 Cost Assessment Working Group

Meeting 15



1. Introduction (Ofgem) - 9:30-9:40
2. RPEs and ongoing efficiency Q&A – 9:40-10:10
3. Disaggregated allowances methodology (Ofgem) – 10:10–10:40
4. MEAV (Ofgem) – 10:40-11:10
- 5 minute break*
5. Model errors (Ofgem) – 11:15–11:45
6. Running the model Q&A – 11:45-12:15
7. Future CAWGs (Ofgem) - 12:15-12:30
8. AOB – 12:30-13:00

RPEs and ongoing efficiency

Q&A

Questions have been raised on RPEs and in particular the calculations and indices used – we are keen to discuss any remaining issues and questions.

- Errors: We have noted an error on the calculation of RPEs (rates for years remaining in RIIO1 need to be included in compounding calculation – input into LIMO)
- Reference: Source for GDN % cost breakdown
- Indices: Definition and calculations (long term trends)

Questions also raised on ongoing efficiency

- Error: We have also noted an error on the calculation of OEs (we have used NGN values from the BPDT which were not compounded, and not used the correct reference year)
- Reference point: Calculation of embedded OE clarification (GD2 period provide by GDNs)
- EUKLEMs: Questions relating to source data
- Innovation: Background on innovation calculation

Disaggregated allowances methodology

Q&A

- In our DD, we calculated efficient allowances using a single top-down regression model, a number of non-regression models and technical assessment for specific projects
- Where we assessed costs through the technical assessment route, the outcome of the technical assessment is equal to the efficient allowance for that project.
 - PCD allowances linked to technically assessed categories (i.e. Kings Ferry, capital projects included in the Capital Projects PCD) are consistent with the outcome of the technical assessment reviews (with OE subsequently applied at the category level – i.e. capex)
- For all other costs, we disaggregated the efficient totex allowance to allow a breakdown of allowances to the activity level
- Therefore, activity level allowances incorporate overall adjustments to the totex allowance due to benchmarking, ongoing efficiency and the efficiency challenge

- For each activity level cost (i.e. Tier 1 mains, cast iron, 75mm) :
 - Submitted costs – adjustments (i.e. disallowed workloads) = Submitted modelled costs (post exclusions and reclassifications)
 - Activity allowance = Total efficient cost for repex * (Submitted modelled costs for activity (post exclusions and reclassifications) / sum of submitted modelled costs for repex (post exclusions and reclassifications))
- Efficient cost for repex calculated in the [9] Allowances file
 - Efficient cost for repex = Submitted cost (post exclusions and reclassifications) * scalar factor
 - Scalar factor = Submitted modelled costs (ex RPEs, pre-efficiency challenge, post exclusions and reclassifications) / Modelled overall costs (ex RPEs, post-efficiency challenge)
- In simple terms, the disaggregated allowances model uses the submitted modelled costs (post adjustments and exclusions) for each activity to determine the weightings used to disaggregate the total efficient repex cost

RIIO-GD2 MEAV

Identified errors and
reporting issues

Cadent has raised DDQs on MEAV. On initial review of the MEAV model it highlighted the following issues:

- **Sc / So MOBs:** potential inconsistencies between MOBs used from submitted BPDT and 2018/19 RRP which may impact MOBs MEAV. → SQP to follow up
- **WWU's projections of mains and services growth** are very high: the MEAV shows growth in excess of industry average growth. Potential error on projected growth of Diameter B and F → SQ to follow up
- **NGN Storage:** 4% of NGN's MEAV is from Storage Assets: however no assets in 2018/19 RRP or BPDT data table → SQ to follow up
- “In your response to DDQ 6 you explained that you had applied the **throughput adjusted unit costs for Pressure Reduction** kit for each GDN at the levels from the RIIO-1 price control review, as uprated for inflation, because the split of volumes across GDNs in the RIIO-1 period has been similar to the historic level. The number of Pressure Reduction assets reported by GDNs has been restated since the last price control, mainly down in Cadent's case, with the result that, throughput adjusted unit costs calculated today would be quite different by GDN – typically significantly higher for Cadent. Mixing the old unit costs, based on old throughput per asset, with the new asset numbers, produces a materially incorrect answer.” → internal review, group discussion

Modelling Errors

Model	Error	Materiality
CSV	Formula error for Emergency CSV	
Ongoing Efficiency	Error in compounding calculation and selected values for NGN	
RPEs	Error in calculation – omitted the RPE assumptions for remaining years in GD1	
Normalisations	Net costs incorrectly used in loss of meterwork adjustment	
Synthetic costs	NGN noted missing repex workload volumes SGN noted no adjustments made to services WWU services twice values reported in BPDT	
Cyber resilience	Allowances provided not illustrated in totex models	
Smart Metering	Incorrect source of repex data	
MOBs	Additional normalisations incorrectly applied to costs	
Normalisations	Discrepancy in LTS values removed for technical assessment and values assessed (Sc)	
Streetworks	Incorrect cell reference	

Running the RIIO- GD2 totex model

Q&A

Future CAWGs

Ofgem

AOB

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.