

# **RP6 Business Plan Benchmarking & Efficiency Data Submission Guidance Notes**



# Benchmarking & Efficiency Data Submission Guidance Notes

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# 1. Introduction

## 1.1 Overview

- 1.1.1 This document sets out the Utility Regulator's (the Authority) regulatory instructions and guidance for the completion and submission of benchmarking and efficiency data by the licensee for the period 2010 to 2024.
- 1.1.2 The benchmarking data should ensure that NIE Networks' cost & volume data is in a consistent format with data collected by Ofgem from equivalent electricity network companies in Great Britain. It will provide the Utility Regulator with a robust and consistent data for the licensee's distribution and transmission business to be used for comparative purposes and benchmarking with counterparts in Great Britain for the RP6 determinations.
- 1.1.3 The company are also asked to set out their forecasts for real price effects and productivity over the RP6 period in order to estimate frontier shift, as well as their proposals for any catch-up efficiencies and its proposed glide-path of implementation.

## 1.2 Legal framework

- 1.2.1 The data submission shall be provided under Condition 8 of the Transmission and Distribution Licences (Provision of information to the Authority) pertaining to NIE Networks Ltd (NIE Networks or the licensee).

## 1.3 Relevant period and timescales for reporting

- 1.3.1 The relevant reporting year for the provision of information runs from 1 April to 31 March of the following calendar year. For example, a reporting year of 2013 or 2012/2013 means the year ended on 31 March 2013. This convention applies throughout the BPTs. The Benchmarking & Efficiency Data Submission information is required for years 2010-2024.
- 1.3.2 The licensee must provide the information required under these regulatory instructions and guidance by the 29 June 2016.

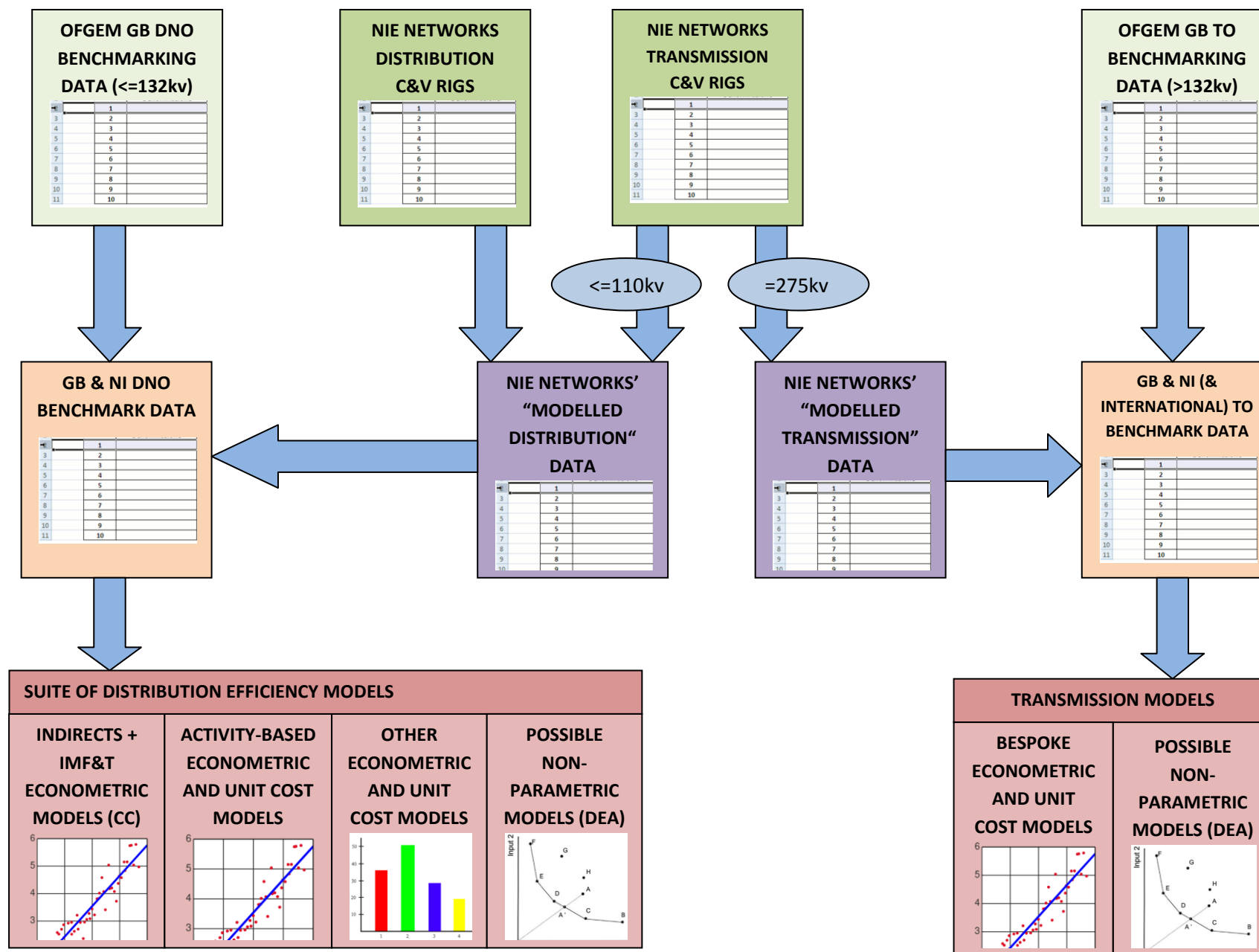
## 1.4 Review following submission

- 1.4.1 Once the licensee has submitted the data to the Authority, the Authority or a person nominated by the Authority ('a reviewer') will undertake its detailed review of the information. A formal Query Process is envisaged as starting as soon as the RP6 Business Plan is submitted on 29 June 2016 and is expected to continue until 26 August 2016. The Query Process will involve further information requests to the licensee to clarify specific aspects of the RP6 Business Plan submission and, as a consequence, further queries to licensee responses may in addition be raised, as appropriate.

## 2. The Benchmarking & Efficiency Templates

- 2.1.1 In the Utility Regulator's Approach to RP6 document, it was outlined how we expect NIE Networks to provide information which would enable the benchmarking of NIE Networks' costs against peer enterprises operating in the rest of the UK and Europe. If NIE Networks' costs are higher than the benchmark company(s), we will consider applying catch-up efficiency factors to the firm's baseline costs.
- 2.1.2 The relevant data for benchmarking is to be primarily extracted from NIE Networks Cost and Volumes RIGs (currently separated into transmission and distribution) and summarised in the UR's benchmarking data spreadsheets.
- 2.1.3 Once expressed on a like-for-like basis, NIE's costs will be combined with Ofgem data on the comparator companies in Great Britain (following any suitable adjustments also). Depending on whether NIE Networks are included in our model estimation stage, this will feed into our econometric and unit cost models (as outlined in the illustration below).
- 2.1.4 It should be noted that the Utility Regulator aims to undertake a relative efficiency analysis of NIE Networks after each reporting year of RP6 and report its findings in an annual Cost and Performance Report. It is therefore likely that a similar (albeit somewhat less comprehensive) benchmarking data submission will be required from NIE Networks after each reporting year so as to facilitate this annual benchmarking.
- 2.1.5 In addition to possible catch-up efficiency, the Utility Regulator will also examine the extent of frontier shift across the electricity industry. Frontier shift is the actual and expected change in the industry benchmarks' costs through time, and is usually applied to regulated allowances from a particular base year. Frontier shift combines both real price effects and continuing productivity – this can work out to be a positive or negative adjustment to a regulated firm's forecast costs, depending on the net impact of these two factors.
- 2.1.6 To ensure that the Utility Regulator can both establish NIE's relative efficiency levels and apply frontier shift to regulated allowances, the Utility Regulator has set out in this document, and its template, the data required to enable this. NIE Networks are asked to populate these templates with their data.
- 2.1.7 The company's benchmarking and efficiency data submission will comprise of two elements:
  - 1. A fully populated Benchmarking & Efficiency Data Submission Reporting Workbook in Microsoft Excel format;
  - 2. A completed Benchmarking & Efficiency Data Submission Commentary Document in Microsoft Word format.

- 2.1.8 NIE Networks are asked to complete the two elements outlined above (data workbook and commentary) in accordance with the detailed guidance provided in the RP6 Business Plan Templates – Overarching Guidance document.
- 2.1.9 Due to the likelihood of using pooled datasets across a number of years, costs reported in the Benchmarking & Efficiency Data Submission **shall be expressed in the same constant price base for all years - namely 2015/16 prices (i.e. using October 2015 RPI).**
- 2.1.10 The company may submit in lieu of particular topics of commentary, Annexes on specific, standalone issues (such as on special factors, atypical etc). This does not remove the need for the company to complete the Reporting Workbook however – all the sections need to be populated by the company, regardless of possible duplication.



## 2.2 General Instructions & Guidance for the worksheets

2.2.1 The Reporting Workbook shall be titled “YYYY\_MM\_DD Electricity Benchmarking & Efficiency Data Submission - Reporting Workbook” where YYYY represents the year, MM represents the month, and DD represents the day, relevant to the request from the Authority or the submission from the licensee.

2.2.2 The worksheets within the workbook are structured as follows:

1. The ‘Cover’ worksheet – this worksheet introduces the name of the workbook, the company name or names of the related parties, the reporting price base and the relevant year or years. As referenced above, the reporting periods are 1<sup>st</sup> April to 31<sup>st</sup> March for each year. A reporting year of “2016” means the year ended on 31<sup>st</sup> March 2016. We use this convention throughout.
2. The ‘Nav’ worksheet – this worksheet helps us to navigate the workbook. It contains three sections: the Key; the Version submission control; and Worksheets, each of which are described below.
  - a. **Key** - We set out a colour code key for each cell in the workbook. For example: the licensee’s input cells are formatted in the colour yellow; cells which total figures within a worksheet are formatted in the colour green; and cells which reference other worksheets within the workbook are formatted in light blue and so on, as set out in this section
  - b. **Version submission control** – for each submission the licensee should input the date the version was submitted to the Authority and the submission version number. This functionality will avoid the need to change the file name when submitting the workbook (except for the change to YYYY\_MM\_DD as identified above).
  - c. **Worksheets** – This section introduces each remaining worksheet within the workbook by setting out the worksheet type, worksheet name, a worksheet status and a worksheet category. The worksheet name is hyperlinked for ease of navigation. As referenced above, we request that the licensee is concerned about the ‘Live’ worksheets only. Other worksheets are hidden but may need to be activated in the future.
3. The ‘Change Log’ worksheet – this worksheet records any changes to the workbook. For each version of the workbook the licensee or the Authority must input the relevant: version number; date; comments/ notable changes; the effect of the changes; and the reason for the changes. A new version shall be created if any of the following apply: new formula/s; changed template structure; new worksheets required; changed data input; or changed row, column headings or classifications. As referenced above, unless otherwise agreed, only the Authority should make structural or formula changes to the workbook. The licensee shall complete a new row for each submission of the workbook completing all the relevant cells in that row.

4. The data submission comprises of the following worksheets with detailed instructions and guidance on the individual worksheets provided in the subsequent sub-sections:

#### **Raw Data Input Worksheets**

- DIST C1 SHEET: C1 Sheet from Distribution RIGs.
- 110kv C1 SHEET: Bespoke C1 Sheet separately identifying the Transmission RIGs' 110kv related costs.
- 275kv C1 SHEET: Bespoke C1 Sheet separately identifying the Transmission RIGs' 275kv related costs.

#### **Modelled Data Worksheets**

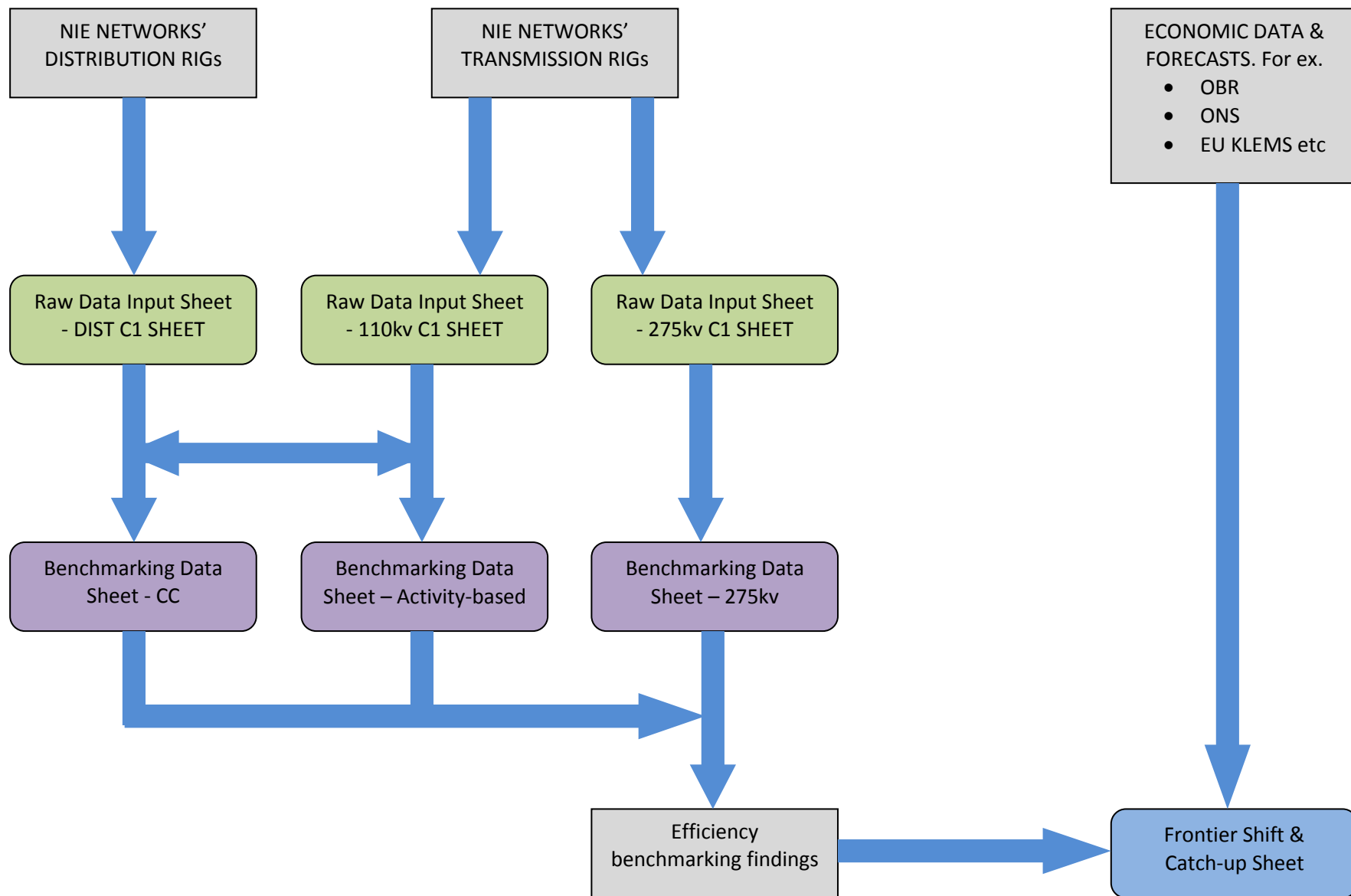
- BENCHMARKING DATA SHEET – CC: Collated data and adjustment sheet to create like-for-like data with GB DNOs, in order to run the same / similar models to those adopted by the CC in RP5.
- BENCHMARKING DATA SHEET – ACTIVITY-BASED: Collated data and adjustment sheet to create like-for-like data with GB DNOs, in order to run activity-based econometric and unit cost models.
- BENCHMARKING DATA SHEET – 275kv: Collated data and adjustment sheet to create like-for-like data with GB Transmission Operator companies, in order to run econometric and/or unit cost models for transmission.

#### **Frontier Shift & Catch-up Efficiencies**

- FRONTIER SHIFT & CATCH-UP SHEET: Company forecasts of real price effects & productivity levels and calculations of their net impact as well as their catch-up efficiency assumptions and their application for RP6.

How the worksheets interact with each other is illustrated in simple terms in the figure below. The coloured boxes align with the coloured tabs within the Benchmarking & Efficiency Data Submission. The grey boxes refer to other informational sources or analysis.





## 2.3 Raw Data Input Worksheets

- 2.3.1 The Raw Data Input Sheets refer to RIGs-based C1 Sheets that cover transmission and distribution. Transmission has been split into two C1 sheets in order to facilitate comparison with equivalent companies in Great Britain. Therefore there are three sheets for NIE Networks to populate:
- DIST C1 SHEET: C1 Sheet from Distribution RIGs.
  - 110kv C1 SHEET: Bespoke C1 Sheet separately identifying the Transmission RIGs' 110kv related costs.
  - 275kv C1 SHEET: Bespoke C1 Sheet separately identifying the Transmission RIGs' 275kv related costs.
- 2.3.2 The tabs of the three Raw Data Input Sheets are coloured in green to distinguish them from other groups of worksheets.
- 2.3.3 NIE Networks should populate the three Raw Data Input Sheets for each year requested (2013 to 2016), using RIGs data. The transmission RIGs however, will need to be split by voltage in order to complete the 110kv C1 Sheet and the 275kv C1 sheet.
- 2.3.4 Although the Raw Data Input Sheets primarily consist of input data cells (i.e. yellow shading), these costs should be the same / reconcile to the RIGs data provided to the UR for the respective years involved (where applicable). If costs and apportionments do not reconcile with the RIGs, for example due to more accurate data and / or revisions being made, then this should be explained in the associated commentary.

## 2.4 Modelled Data Worksheets

2.4.1 There are three modelled data sheets which NIE Networks are asked to populate primarily using figures from the raw data input sheets and from any other company source. The three sheets are based on three separate modelling approaches which we aim to adopt for RP6:

- Benchmarking Data Sheet – CC Models
- Benchmarking Data Sheet – Activity-Based Models
- Benchmarking Data Sheet – 275kv Models

2.4.2 The tabs of the Modelled Data Sheets are coloured in purple to distinguish them from other groups of worksheets.

2.4.3 As comparator data becomes available, it may be necessary for the Utility Regulator to ask for some additional benchmarking data in due course, additional to what is currently contained within the three benchmarking sheets.

### GENERAL INSTRUCTIONS

2.4.4 The Benchmarking Data Summary worksheets collect the outturn financial and explanatory information needed to understand the complete picture of the licensee's business, on a basis which is comparable with Ofgem companies.

2.4.5 There are four sections within the benchmarking spreadsheets (Sections A-D) for each model. As there are some differences in scope and activity between NIE's transmission and distribution business and the Distribution Network Operators (DNOs) and Transmission Operators (TOs) in Great Britain, it may be necessary to make pre-modelling adjustments and possible special factor adjustments in order to establish like-for-like figures for comparison.

2.4.6 Figures for the 2013-2016 years should feed in from the raw data input sheets and other additional company sources. The columns for the 2010-2012 years should also be populated by the company (although there is not a need to have this "pre-RIGs" data within the raw data input sheets). This will give a longer time horizon which will help the UR reconcile and assess if company performance has changed since the CC analysis was undertaken (using 2009/10 to 2011/12 data).

2.4.7 Data for years 2017 to 2024 should be populated with forecasts which should align to the costs and volumes data contained within the company's RP6 Business Plan. This gives the Utility Regulator the capability of assessing company forecasts as well as baseline expenditure. It is envisaged at this stage that for most models, the Utility Regulator will regress using historic data; however, these historic-based models can be used to predict future costs for comparison with the company business plan.

- 2.4.8 For all three of the Benchmarking Data Sheets the company should complete the worksheets with the logical four step procedure as set out in Sections A-D of each modelling approach. Each section's function is detailed below.

#### *SECTION A – COST DATA*

- 2.4.9 For the years 2013-2016, within each of the Benchmarking Data Sheets NIE Networks are asked to populate the cells in Section A with the relevant data from the raw data input sheets.
- 2.4.10 Data should also be provided for the years 2010-2012, although this can be input straight from company data, rather than raw data input sheets.
- 2.4.11 Forecast data should also be provided for the years 2017-2024 on the same basis as the years of historic actuals.

#### *SECTION B – PRE-MODELLING ADJUSTMENTS*

- 2.4.12 For Section B, based on the principles set out below, NIE Networks are requested to establish and quantify any pre-modelling adjustments figures which they propose should be adopted in order to ensure NIE Network's costs are on a comparable basis to the DNOs in Great Britain.
- 2.4.13 These are positive and negative adjustments which relate to differences in scope between the business activities encompassed in NIE Network benchmark data and the benchmark data from DNOs in Great Britain. Each model may require different adjustments, depending on its functional form and the nature of the expenditure to be assessed.
- 2.4.14 Section B includes input cells for both text and numeric figures so that any additional adjustments can be identified and quantified by the company within the submission. The company is free to insert additional rows for Sections B if required.
- 2.4.15 It should be stressed that for the draft and final determinations, the Utility Regulator will use its own judgement as to what any additional adjustments are appropriate and if appropriate, what the quantum of the adjustment should be.

#### *SECTION C – SPECIAL FACTORS, ATYPICALS & REGIONAL WAGE ADJUSTMENT*

- 2.4.16 As the Utility Regulator proposed in its RP6 Approach document, we request a submission from NIE Networks detailing its atypical or exceptional costs and a submission of any 'special factors' which explain why the company's operational and capital spend maybe higher or lower than comparative benchmark costs.

- 2.4.17 The Utility Regulator reserves the right to determine on the quantum of NIE Networks' submission for special factor adjustment(s) and/or introduce additional special factors (positive or negative) where material and in the interests of a fairer, more robust benchmarking of NIE Networks to comparators.
- 2.4.18 Based on the principles below, NIE Networks are therefore requested to quantify in monetary terms and submit special factor and atypical expenditure figures which they propose to be adopted in our efficiency benchmarking.
- 2.4.19 Our approach is largely the same to our previously published approaches to the benchmarking of NI Water (see regulatory letter "WR18" issued to the NI Water on 27th Oct-11 relating to their 2<sup>nd</sup> price control PC13, which in turn followed in general terms our approach at PC10).
- 2.4.20 The Utility Regulator's advice and guidance on special factors, atypicals and regional wage adjustments for RP6 is set out in the respective sections below:

#### ***Special Factor Assessment Criteria***

- 2.4.21 The means by which the Utility Regulator shall assess the company's submission will include examination of each claim against the following criteria:
- What is different about the circumstances that cause materially higher cost claims which amount to greater than 1% of the total modelled costs in question?
  - Why do these circumstances lead to higher costs?
  - What is the net impact of these costs on prices over and above that which would be incurred without these factors? What has been done to manage the additional costs arising from the different circumstances and to limit their impact?
  - Are there any other different circumstances that reduce the company's costs relative to industry norms? If so, have these been quantified and offset against the upward cost pressures?
- 2.4.22 It should be noted that some special factors may only apply to certain models (i.e. hypothetically speaking a special factor for inspections & maintenance may not apply to tree cutting models) so NIE Networks are asked to set special factors which are appropriate to each particular model and the cost categories being captured in the dependent variable.
- 2.4.23 In addition, a special factor may not apply (or only partially apply) if the model takes already into account the company specific factor(s) in question – i.e. within its model specification/ functional form.

- 2.4.24 The company is asked to provide workings of how they arrived at the special factor figures in their proposal and provide accompanying commentary substantiating their claim for the special factor, taking into account the assessment criteria above. NIE Networks can also supply a separate Annex on special factors if they believe this will help substantiate their claim with additional detail.
- 2.4.25 If the company do include a separate Annex on special factors with sufficient detail, it would not be necessary to include associated commentary on the issue, as it would be duplicative.
- 2.4.26 Section C includes input cells for both text and numeric figures so that any special factors and atypicals can be identified and quantified by the company within the submission. The company is free to insert additional rows within Section C if required.
- 2.4.27 It should be stressed that for the draft and final determinations, the Utility Regulator will use its own judgement as to what whether any special factors are appropriate and if appropriate, what the quantum of the special factor should be.
- 2.4.28 It also remains to be determined whether the Utility Regulator will apply any special factors as pre-modelling or post-modelling adjustments i.e. as part of the modelling estimation or as adjustments after model estimation.

#### ***Treatment of Atypical Operating Costs***

- 2.4.29 You may wish to declare such “one-off” expenditure as “exceptional” within your accounts and/or as part of your Business Plan submission. We can then consider making adjustments to exclude them from our modelling and benchmarking analysis. Some examples of such costs might include extreme weather events; or perhaps unusual compensation payments to customers.
- 2.4.30 Some atypicals may be positive in nature, i.e. it may be possible to adjust costs if costs they unusually low due to a uncharacteristically mild winter.
- 2.4.31 The company should provide associated commentary on atypicals in the associated commentary document and can also provide a separate Annex if required. If the company do include a separate Annex on atypical costs with sufficient detail, it would not be necessary to include associated commentary on the issue, as it would be duplicative.
- 2.4.32 The Utility Regulator, as part of its determination process will decide whether to apply the atypical, a proportion of it or none of it, depending on its assessment of the proposal(s).
- 2.4.33 In assessing atypical claims the Utility Regulator will be mindful that some of the proposed atypical expenditure, for example with regards to implementing EU compliance, may be implemented across the UK’s electricity industry as a whole. In

order to allow a fair like-for-like comparison, it may be necessary to also adjust the GB DNOs' costs accordingly. Each decision will be undertaken on a case-by-case basis by the Utility Regulator.

### ***Regional wage adjustment***

- 2.4.34 In order to ensure that costs for each company can be compared fairly, regional disparities in wages should be taken into account across all the DNOs.
- 2.4.35 NIE Networks are asked to provide their assessment of what regional wage adjustment is appropriate for Northern Ireland's wage levels and labour market.
- 2.4.36 The Utility Regulator, as part of its determination process will decide what regional wage adjustment, and the magnitude of such an adjustment would be appropriate.
- 2.4.37 The company should provide associated commentary on its proposed regional wage adjustment in the associated commentary document and can also provide a separate Annex if required. If the company do include a separate Annex on the proposed regional wage adjustment with sufficient detail, it would not be necessary to include associated commentary on the issue, as it would be duplicative.
- 2.4.38 We have intentionally **not specified the calculation formula** for the "Final adjusted modelled costs" line in each of the three Benchmarking Data Sheets as it is not known at this stage whether special factors will be taken into account at 'pre' or 'post' model estimation stage. Atypicals and regional wage adjustments will also be factored into our efficiency calculations.

### ***SECTION D – EXPLANATORY DATA***

- 2.4.39 NIE Networks are asked to provide details of their activities and data relating to the size of their network and number of customers etc within Section D of the benchmarking sheet. These will be used to create cost drivers, in order to both explain and predict costs in the models.
- 2.4.40 The company should note that as the Utility Regulator undertakes its efficiency analysis in more depth, it may require some additional explanatory data from the company later in the process. It will depend on each particular model's statistical performance in addition to other empirical issues as to which explanatory variables will be used by the Utility Regulator. This may not always be apparent at the initial stages of data collection.

## **BENCHMARKING DATA SHEET – CC MODELS**

- 2.4.41 This is a spreadsheet which will enable the Utility Regulator to replicate the Competition Commission's analysis for RP5, albeit refreshed to take account of more up-to-date DNO data, from NI and GB RIGs.
- 2.4.42 At the present time, the Utility Regulator is minded to adopt IMF&T + Indirects costs as the dependent variable, along with the same explanatory variables as the CC used, in order to run the models with contemporary data.
- 2.4.43 The models adopted by the CC which we would like to update with latest data are as follows:
- Model M4: CSV of customer numbers, units distributed and network length
  - Model M5: CSV of MEAV and LDNL (not used in CC triangulation)
  - Model M6: Unit cost regression (cost/customer, by network length/customer)
- 2.4.44 The company are asked to express the data in the same step-by-step manner, (completing all four sections) as is outlined in the general instructions section above.



## BENCHMARKING DATA SHEET – ACTIVITY-BASED MODELS

- 2.4.45 This is a data summary sheet, which will be used to undertake comparative econometric analyses of NIE Networks' costs in specific and discrete areas. This should be completed using the same modelling principles and approach as the Benchmarking Data Sheet – CC models and as covered in the general instructions section above i.e. covering all four sections of information (cost data, adjustments, atypical & special factors and explanatory data).
- 2.4.46 There are five activity-based models to be estimated, and which will require NIE Networks data:
- Model 1: Inspections & Maintenance
  - Model 2: Faults
  - Model 3: Tree-cutting
  - Model 4: Closely Associated Indirects
  - Model 5: Business Support
- 2.4.47 Models 2, 3 and 4, which consist of Faults, Tree-cutting and Closely Associated Indirects models respectively, are Ofgem RIIO-ED1 models, which predict costs based on discrete DNO activity levels and workloads.<sup>1</sup>
- 2.4.48 Models 1 and 5, which consist of assessing Inspections & Maintenance and Business Support costs respectively, are expenditure items which the Utility Regulator aims to assess in conjunction with the CC model and the Ofgem activity models. However, the precise specification of the models is not readily apparent at the present time.
- 2.4.49 Likely cost drivers have been indicated, and should be provided by the company. However, the Utility Regulator reserves the right to ask for additional data on either costs, adjustments or explanatory variables later in the process.
- 2.4.50 Proposed special factors and atypicals should relate to each model in question. However, the materiality threshold and other criteria for assessment will still apply.
- 2.4.51 It should be noted that our final chosen dependent variables, explanatory variables and functional form will depend on both the *a priori* assumptions on likely cost drivers, as well as the statistical performance of the models.

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<sup>1</sup> Model specifications and performance are set out in Appendix 4 of Ofgem's RIIO-ED1: Final Determinations for the slow-track electricity distribution companies – business plan expenditure assessment document. [https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/riio-ed1\\_final\\_determination\\_expenditure\\_assessment\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/riio-ed1_final_determination_expenditure_assessment_0.pdf)

## **BENCHMARKING DATA SHEET - 275kv**

- 2.4.52 This summary sheet is to be used to undertake comparative econometric and/or unit cost analysis of transmission costs relating to 275kv. This should enable some benchmarking of NIE Networks with Transmission Operators (TOs) in Great Britain (typically >132kv), and perhaps further afield.
- 2.4.53 NIE Networks should complete both the financial data and the explanatory data sections as well as any adjustments and special factors which may need to be required. Financial data should feed in from the 275kv C1 SHEET.
- 2.4.54 It should be noted that our final chosen dependent variables, explanatory variables and functional form will depend on both the *a priori* views of likely cost drivers, as well as the statistical performance of the models.
- 2.4.55 Due to the uncertainties around what the functional form of the transmission models at this stage, the company should view the requested data as a minimum. There may be additional lines of data added to this sheet by the Utility Regulator in due course as the optimal specification of the transmission model(s) becomes more apparent.

## 2.5 Frontier Shift & Catch-up Efficiency Worksheet

- 2.5.1 This is a worksheet which enables the company to set out its assumptions for frontier shift over RP6, as well as allowing the company to set out its estimate of catch-up efficiency during the price control.
- 2.5.2 The tab of the Frontier Shift & Catch-up Efficiency Sheet is coloured in blue to distinguish it from other groups of worksheets.

### Frontier Shift (RPE and productivity)

- 2.5.3 The first part of the worksheet allows the company to set out its forecasts of real price effect and productivity data over the RP6 period. This can be used to establish an estimate of frontier shift.<sup>2</sup>
- 2.5.4 In the first two tables, the company is asked to insert on the left column its estimate of appropriate weights (of labour, materials, other etc) which they believe best reflects appropriate expenditure proportions for opex and capex. The company should make it clear in the commentary or (if preferred) a separate Annex, whether they have used Ofgem weights, own company weights or adopted assumed weights for the frontier company etc.
- 2.5.5 The company are then asked to insert its nominal forecast input costs for each respective cost category (labour, materials, etc) for each year. The years in question are for the year ending 31 March 2016 (shown as 2016 on the spreadsheet), to the year ending 31 March 2024 (i.e. 2024). The formulas are set up with the assumption that the inputs (nominal input prices, productivity assumptions and RPI) will all be in percentage terms.
- 2.5.6 The company should set out the rationale for their assumptions and data used for frontier shift in more detail either within the associated commentary, or alternatively via submission of a paper or Annex on Frontier Shift as part of its business plan.

### Catch-up efficiency

- 2.5.7 The Utility Regulator's RP6 Approach document sets out our view that NIE Networks as a regulated monopoly should have carried out sufficient benchmarking to inform its decision on the scope for improving efficiency within its RP6 Business Plan.

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<sup>2</sup> Further detail on Real Price Effects, Productivity and Frontier Shift can be found in Chapter 11 of the CC Determination of RP5 and First Economics' paper for the UR for PC13:  
[https://assets.digital.cabinet-office.gov.uk/media/535a5768ed915d0fdb000003/NIE\\_Final\\_determination.pdf](https://assets.digital.cabinet-office.gov.uk/media/535a5768ed915d0fdb000003/NIE_Final_determination.pdf)  
[http://www.uregni.gov.uk/uploads/publications/ANNEX\\_D\\_-\\_Rate\\_of\\_Frontier\\_Shift\\_-\\_PC13\\_FD.pdf](http://www.uregni.gov.uk/uploads/publications/ANNEX_D_-_Rate_of_Frontier_Shift_-_PC13_FD.pdf)

- 2.5.8 This sheet therefore also allows the company to set any catch-up efficiencies its benchmarking has identified as necessary in order to operate at the level of the chosen benchmark of efficient costs.
- 2.5.9 The “Assessment of Relative Efficiency Gap in Base Year” cell in the worksheet allows the company to state what it believes the efficiency gap is between itself and the benchmark company.
- 2.5.10 The “Assessment of Scope for Catch-up until End of RP6 Price Control Period” cell in the worksheet allows the company to state how much of the gap identified in the data input cell immediately above, can be closed during RP6 period. For example, if (hypothetically speaking) an efficiency gap of 10% has been assessed for the base year and the company can close all (i.e. 100%) of this gap during RP6, then insert 10% in both the “Assessment of Relative Efficiency Gap in Base Year” cell and the “Assessment of Scope for Catch-up until End of RP6 Price Control Period” cell.
- 2.5.11 The formulas within the “Assessment of Scope for Catch-up Year-on-Year” line can be modified by the company to implement immediate catch-up or to extend the rate of catch-up over a number of years. The formulas are in these cells for illustrative purposes and are coloured yellow (input cell) as the company are free to change the calculations to suit their adopted efficiency profile. The efficiency profile should be challenging for the company and be consistent with regulatory and industry precedent.

The company should set out the rationale for their assumptions and data used for catch-up efficiency in more detail either within the associated commentary, or alternatively via submission of a paper or Annex on Catch-up efficiency as part of its business plan.

### **Combined impact of Frontier Shift and Catch-up Efficiencies**

- 2.5.12 The final part of the worksheet allows the combined impact of frontier shift and catch-up efficiencies to be imposed on baseline costs.

## Version Control

| Version | Date       | Description                           | Applicable Year/s |
|---------|------------|---------------------------------------|-------------------|
| 01.00   | 20/01/2016 | Issued to NIE Networks for queries.   | 2010 to 2024      |
| 02.00   | 17/02/2016 | Version 02.00 issued to NIE Networks. | 2010 to 2024      |
|         |            |                                       |                   |
|         |            |                                       |                   |