

The IDoK Model: What's new?

Most elements of the model have not changed significantly. The basic principles – the components of the allowable amount – have not changed. We have tested all previous interim determinations using the new model. There is no material difference in the allowable amount. The following has changed:

1. Data Entry

There is a new data menu for adding inputs to the model. This allows the model to expand depending on the number of inputs required. The inputs can also be labelled as required.

Why? The old model had a large number of input lines, so that it could cope with the potential for a large number of items in any one cost category. This meant that most of the inputs were redundant most of the time. Consequently, the new model is much smaller than the previous version.

2. Price Base

The price base for most historic inputs has changed to outturn prices.

Why? We don't use COPI at interim determinations (aside from the very specific adjustment described for RCC4). However, at periodic reviews, we use COPI to inflate capital expenditure that is incorporated into the RCV. A discrepancy could arise between IDoK outturn prices, indexed using RPI alone, and the outturn value at periodic reviews, indexed using COPI.

3. K Solving

We have added a K Solving menu. The main function is to apply a proportion of K to some non-tariff basket revenues.

Why? Our policy, established at the Periodic Review 2004, is that charges to large users should move broadly in line with charges to tariff basket customers. We accept that in some instances, increases for large users may be lower than for tariff basket customers. This feature applies the same proportion of incremental interim determination K to large users.

4. Revenues

The IDoK model previously used a very simple method to forecast revenues, scaling actual turnover by RPI+K in future years. The revenue forecast for future years is now based on the final determination forecast adjusted to reflect actual revenue collected.

Why? The simple calculation projects real increases in revenue if K is positive, whereas a portion of final determination K may relate to maintaining

a constant revenue when there is a decreasing forecast. The new model will enable us to reconcile more closely with Aquarius 3.

5. Returns (optional)

The model now includes an option to use either the average value of assets created during the year or the year end value, as the basis for allowable returns.

Why? At periodic reviews we use the year average RCV as the basis for calculating returns. One company commented on this difference in representations on its interim determination. During all previous IDoKs, we had used the year end value of assets created to calculate the returns due. We therefore felt that we should be consistent with all companies during the course of that review period. However, we have included the option to use year average value for IDoKs during AMP4.