February 2018

Analytical Review

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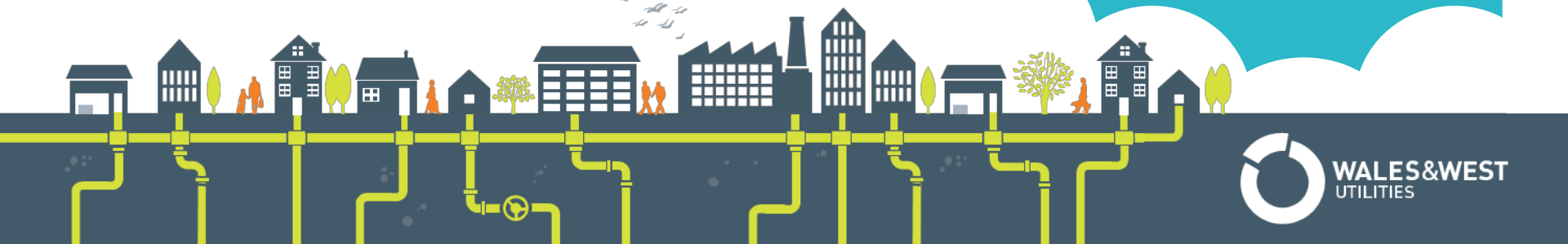

WALES&WEST UTILITIES

Objectives

At the Demand Estimation Sub Committee (DESC) meeting dated 19th December 2017 I raised a number of points around improving how we (DESC) capture what influences the decisions we as a group are making.

This slide pack seeks to utilise good practice from within the Accountancy frameworks (most notably ACA and ACCA) and how this clear process could be applied to the work programme of DESC.

The text reflects the view of the ACCA who provide a full published narrative: http://www.accaglobal.com/uk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/analytical-procedures.html

All examples are fictitious and not reflective of any agreed or proposed position of WWU or DESC.

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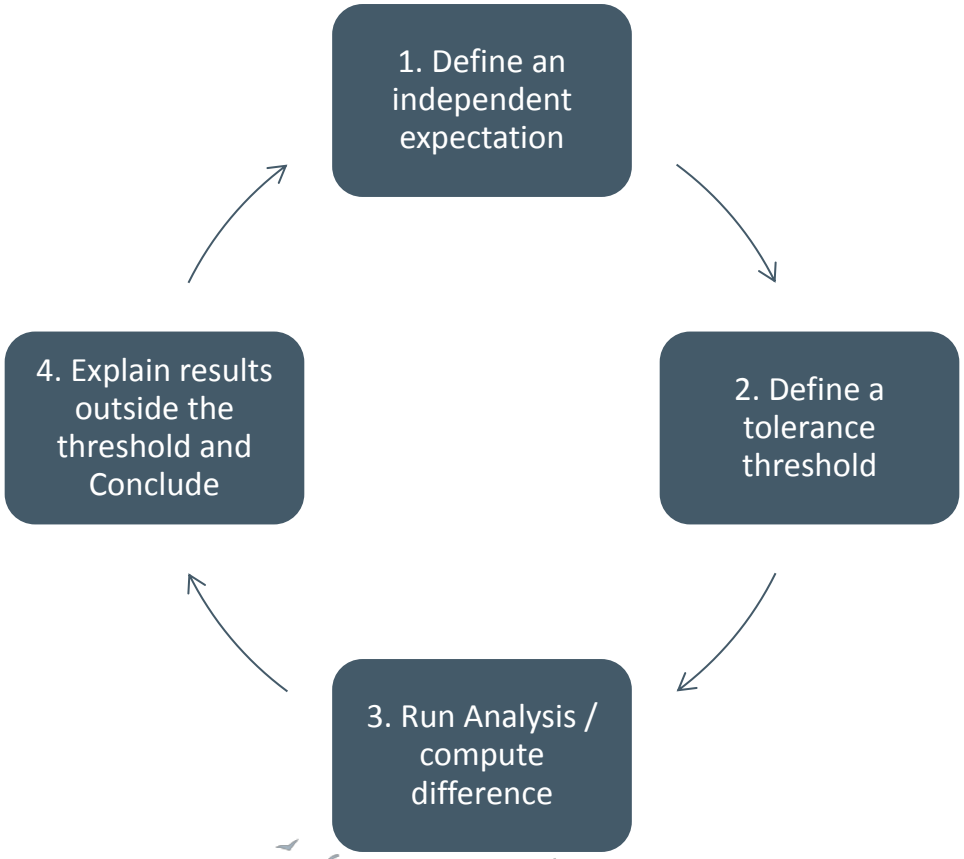
Four Stage process to Analytical Review



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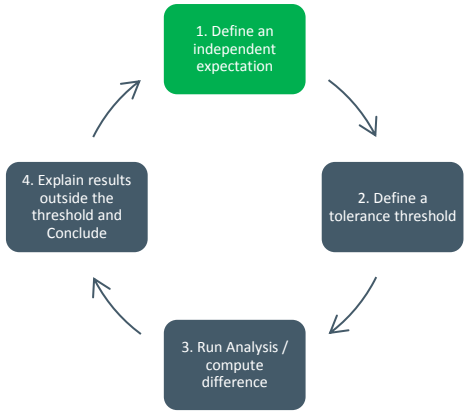
Define your independent expectation

The development of an appropriately precise, objective expectation is the most important step in effectively using substantive analytical procedures. An expectation is a prediction of a recorded amount or ratio. The prediction can be a specific number, a percentage, a direction or an approximation, depending on the desired precision.



For example:

When comparing Model data to after the event read data we would expect:
Within EUC Band 01 we would expect the reality of historic data will align to the model predictions.

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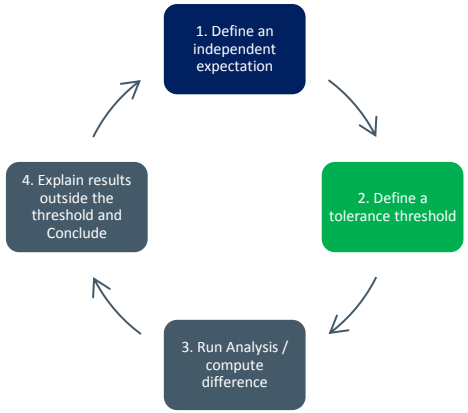
Define tolerance threshold

Consider the amount of variance which can be accepted without further investigation.

This should be defined PRIOR to running the results.

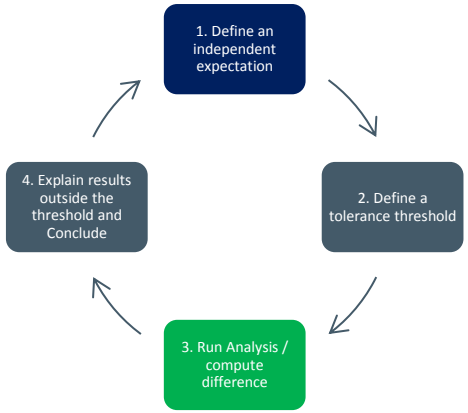


For example:

Within EUC Band 01 we would expect that the root mean square overall error rate is <1%.
Within EUC Band 01 we would expect that the day of the week root mean square error rate would be no greater than 2%.

Compute the difference

Run the analysis and compare to the expectation.



For example:

Within EUC Band 01 the error rate against prediction was -0.1%.

The day of the week analyses showed that the following exceptions:
Friday - Four LDZ were just over -2% (SC, WS, SE, SO)
Sunday -four LDZ were just over +2% (SW, WS, NT, SO)

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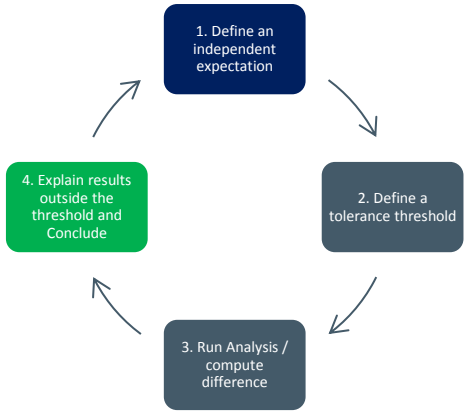
Investigate significant differences and draw conclusions



In considering the differences it is important to consider:

1. Whether the expectation in step 1 should be revised based on findings. This could include disaggregation so breaking the balance up into separate components with differing characteristics
2. The extent to which unexplained variances should be subject to further work (to assess route cause)

For example:

Is the model allocation between days incorrect or do we need to run further analyses in the Spring Approach or disaggregate balances?

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THANK YOU

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