



DNCMF

September 2018

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Issued 14 Sept 2018

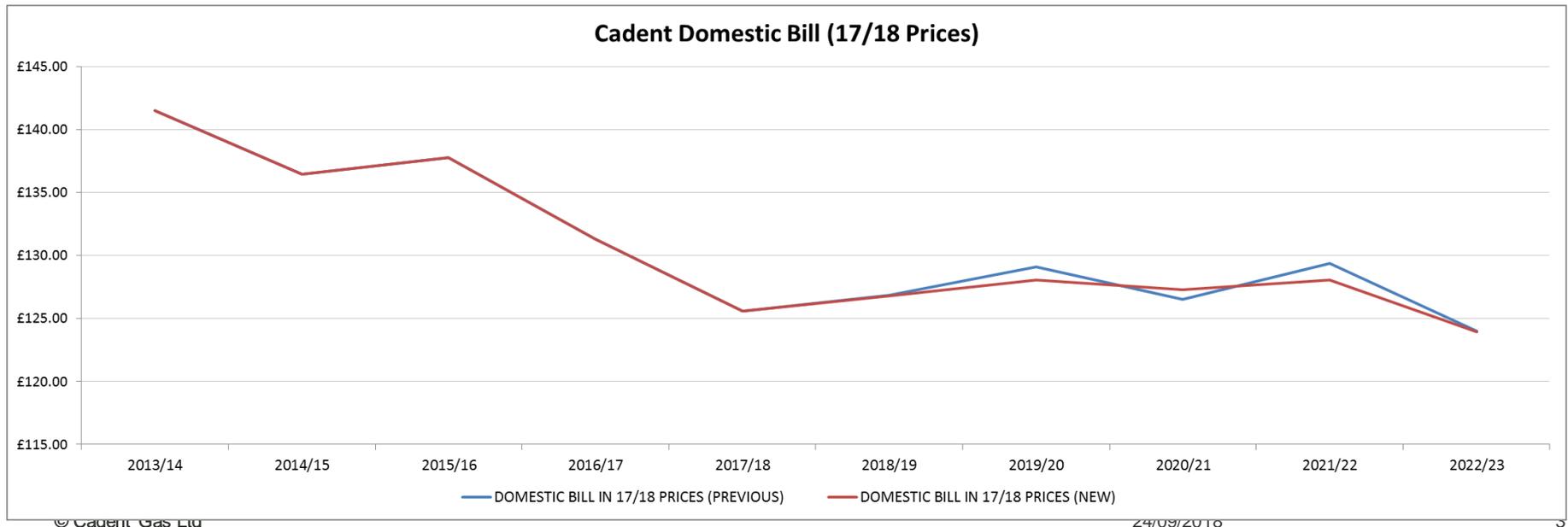
Cadent
Your Gas Network

Approach for September 2018 MOD0186

- **The September MOD0186 will fully reflect the 2017/18 RRP for the impact of Totex actual and forecast, and actual output incentive performance**
- **This provides a greater level of certainty over the impact of uncertainty mechanisms yet to be determined (Streetworks and Smart)**
- **The approach for GD-2 has been maintained, and an overview of the potential impact of a move to CPIH indexation is included for awareness and discussion**
- **The main updates made this time:**
 - **Full alignment to the 2017/18 Revenue RRP submission**
 - **Updated cost of debt forecast**
 - **Alignment to 2017/18 RRP for Totex actuals and forecast**
 - **Finalisation of 2017/18 Shrinkage and Leakage volumes**
 - **Finalisation of 2017/18 Stakeholder Engagement award**
 - **Updated positions for Tier 2 Repex, Streetworks and Smart UMs**
 - **Standard updates for inflation, base rates and gas prices**

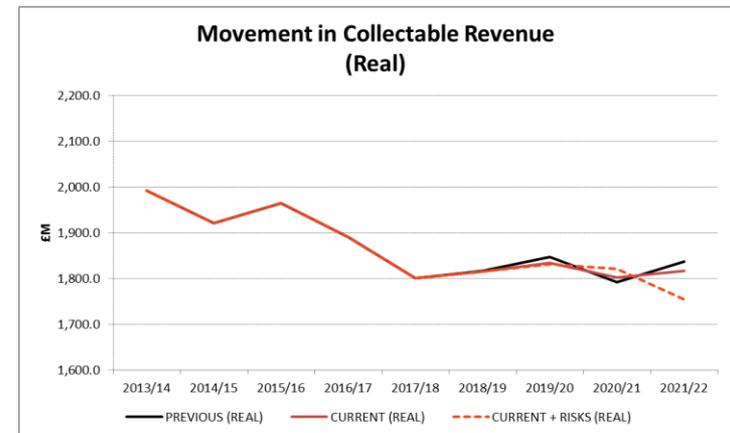
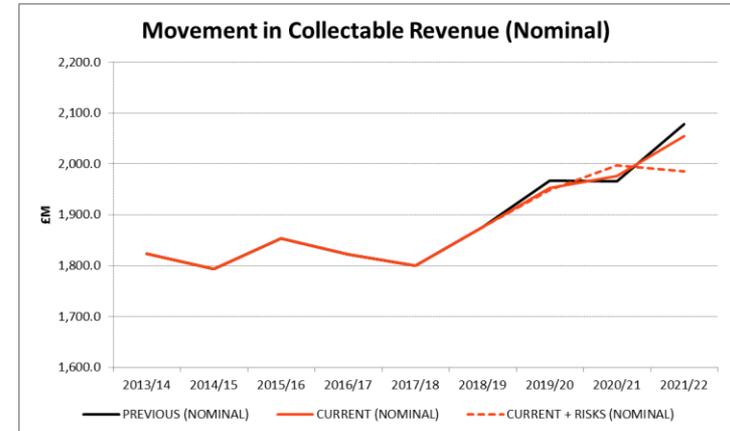
Summary Position

HEADLINE MOVEMENT SINCE LAST REPORT	CADENT GAS LTD									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,876.4	1,967.0	1,965.4	2,077.7	2,079.1
MOVEMENT ▼	-	-	-	-	-	(0.7)	(14.5)	11.4	(22.6)	(3.5)
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,875.7	1,952.5	1,976.8	2,055.1	2,075.6
% MOVEMENT	-	-	-	-	-	(0.0%)	(0.7%)	+0.6%	(1.1%)	(0.2%)
DOMESTIC BILL IN 17/18 PRICES (PREVIOUS)	£141.51	£136.46	£137.76	£131.29	£125.59	£126.84	£129.10	£126.53	£129.39	£124.01
MOVEMENT ▼	-	-	-	-	-	(£0.02)	(£1.02)	+£0.76	(£1.35)	(£0.07)
DOMESTIC BILL IN 17/18 PRICES (NEW)	£141.51	£136.46	£137.76	£131.29	£125.59	£126.82	£128.08	£127.29	£128.04	£123.94



Summary Position

NETWORK		2018/19	2019/20	2020/21	2021/22	2022/23
EAST OF ENGLAND (£M)		644.5	644.5	648.9	659.8	661.3
LONDON (£M)		433.6	476.0	470.1	515.6	516.9
NORTH WEST (£M)		453.8	485.9	486.9	519.0	517.6
WEST MIDLANDS (£M)		344.5	360.7	359.4	383.2	383.3
COLLECTABLE REVENUE (NEW)		1,876.4	1,967.0	1,965.4	2,077.7	2,079.1
EAST OF ENGLAND (£M)		644.3	649.7	658.9	652.7	659.9
LONDON (£M)		433.5	466.5	471.8	509.5	515.9
NORTH WEST (£M)		453.5	479.9	488.2	513.2	517.0
WEST MIDLANDS (£M)		344.4	356.4	357.9	379.7	382.8
COLLECTABLE REVENUE (PREVIOUS)		1,875.7	1,952.5	1,976.8	2,055.1	2,075.6
EAST OF ENGLAND (£M)	▲	(0.2)	5.2	10.0	(7.1)	(1.4)
LONDON (£M)	▼	(0.1)	(9.5)	1.7	(6.1)	(1.0)
NORTH WEST (£M)	▼	(0.4)	(5.9)	1.3	(5.8)	(0.6)
WEST MIDLANDS (£M)	▼	(0.0)	(4.3)	(1.5)	(3.5)	(0.5)
MOVEMENT (£M)	▼	(0.7)	(14.5)	11.4	(22.6)	(3.5)
EAST OF ENGLAND (%)	▲	(0.0%)	+0.8%	+1.5%	(1.1%)	(0.2%)
LONDON (%)	▼	(0.0%)	(2.0%)	+0.4%	(1.2%)	(0.2%)
NORTH WEST (%)	▼	(0.1%)	(1.2%)	+0.3%	(1.1%)	(0.1%)
WEST MIDLANDS (%)	▼	(0.0%)	(1.2%)	(0.4%)	(0.9%)	(0.1%)
MOVEMENT (%)	▼	(0.0%)	(0.7%)	+0.6%	(1.1%)	(0.2%)



Collectable Revenue Trace

COLLECTABLE REVENUE TRACE		CADENT GAS LTD									
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
COLLECTABLE REVENUE (PREVIOUS)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,876.4	1,967.0	1,965.4	2,077.7	2,079.1
INFLATION	▲	-	-	-	-	-	-	1.9	1.6	(0.8)	(0.6)
GAS PRICES	▲	-	-	-	-	-	-	0.0	5.8	5.9	5.4
BASE RATE CHANGE	▲	-	-	-	-	-	-	0.0	0.1	0.1	0.1
COST OF DEBT	▼	-	-	-	-	-	-	(9.8)	(5.5)	(5.0)	(7.5)
STREETWORKS UNCERTAINTY	▲	-	-	-	-	-	-	10.6	1.3	-	-
SMART METERING UNCERTAINTY	▲	-	-	-	-	-	-	-	-	(22.1)	-
TIER 2 REPEX UNCERTAINTY	▼	-	-	-	-	-	-	(2.7)	(0.4)	-	-
TOTEX PERFORMANCE	▼	-	-	-	-	-	-	(11.2)	9.0	-	-
EXIT INCENTIVE	▲	-	-	-	-	-	-	(0.1)	0.7	0.6	0.5
EXIT PASS THROUGH	▼	-	-	-	-	-	-	(0.0)	(0.4)	(0.9)	(0.9)
SHRINKAGE & LEAKAGE VOLUMES	▲	-	-	-	-	-	-	0.6	(0.3)	(0.3)	(0.3)
STAKEHOLDER INCENTIVE	▼	-	-	-	-	-	-	(1.3)	(0.2)	(0.2)	(0.2)
NETWORK INNOVATION	▼	-	-	-	-	-	-	-	(0.7)	-	-
THEFT OF GAS RECOVERIES	▼	-	-	-	-	-	-	(1.5)	-	-	-
REVENUE COLLECTION FORECAST	▼	-	-	-	-	-	(0.7)	(0.9)	0.8	0.4	-
OTHER MINOR CHANGES	▼	-	-	-	-	-	-	(0.2)	(0.2)	(0.3)	0.0
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,875.7	1,952.5	1,976.8	2,055.1	2,075.6
% MOVEMENT		-	-	-	-	-	(0.0%)	(0.7%)	+0.6%	(1.1%)	(0.2%)

Inflation

INFLATION		2019/20	2020/21	2021/22	2022/23
EAST OF ENGLAND (£M)	▲	0.6	0.5	(0.2)	(0.2)
LONDON (£M)	▲	0.4	0.4	(0.2)	(0.2)
NORTH WEST (£M)	▲	0.5	0.4	(0.2)	(0.2)
WEST MIDLANDS (£M)	▲	0.3	0.3	(0.1)	(0.1)
CADENT (£M)	▲	1.9	1.6	(0.8)	(0.6)
EAST OF ENGLAND (%)	▲	+0.1%	+0.1%	(0.0%)	(0.0%)
LONDON (%)	▲	+0.1%	+0.1%	(0.0%)	(0.0%)
NORTH WEST (%)	▲	+0.1%	+0.1%	(0.0%)	(0.0%)
WEST MIDLANDS (%)	▲	+0.1%	+0.1%	(0.0%)	(0.0%)
CADENT (%)	▲	+0.1%	+0.1%	(0.0%)	(0.0%)

HMT RPI FORECASTS	2018	2019	2020	2021	2022
LATEST FORECAST (MAY-18)	3.4%	3.1%	3.0%	3.1%	3.2%
PREVIOUS (MAY-18)	3.4%	3.0%	3.0%	3.2%	3.2%
CHANGE	-	+0.1%	-	(0.1%)	-

- Note that positions shown are relative to the Jun-18 forecast
- Low level re-profiling of RPI within the HM Treasury forecasts

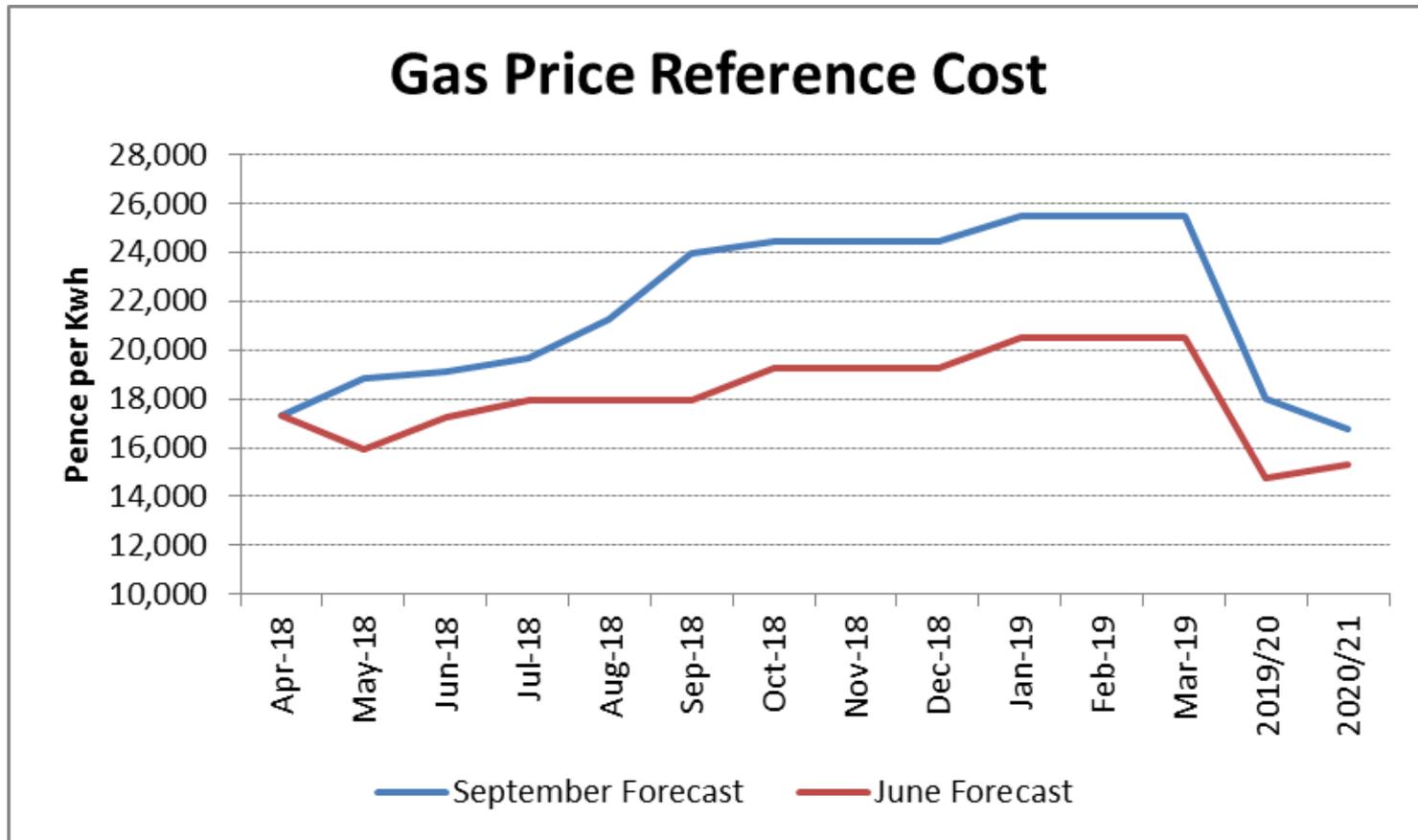
Gas Prices

GAS PRICES		2019/20	2020/21	2021/22	2022/23
EAST OF ENGLAND (£M)	▲	0.0	2.0	2.0	1.9
LONDON (£M)	▲	0.0	1.1	1.1	1.0
NORTH WEST (£M)	▲	0.0	1.4	1.5	1.3
WEST MIDLANDS (£M)	▲	0.0	1.3	1.3	1.2
CADENT (£M)	▲	0.0	5.8	5.9	5.4
EAST OF ENGLAND (%)	▲	+0.0%	+0.3%	+0.3%	+0.3%
LONDON (%)	▲	+0.0%	+0.2%	+0.2%	+0.2%
NORTH WEST (%)	▲	+0.0%	+0.3%	+0.3%	+0.3%
WEST MIDLANDS (%)	▲	+0.0%	+0.4%	+0.3%	+0.3%
CADENT (%)	▲	+0.0%	+0.3%	+0.3%	+0.3%

- Note that positions shown are relative to the Jun-18 forecast
- Continuing to see a sharp increase in gas price forecasts for 2018/19
- This increases the shrinkage cost forecast for the year quite significantly, but also increases incentive revenue two years out
- Note that the revenue impact in 2021/22 and 2022/23 will include lagged impacts from GD-1 and rebased pass through allowances for GD-2

SHRINKAGE COST FORECAST		2018/19	2019/20	2020/21
CURRENT (SEP-18)	£M	27.6	21.4	19.2
PREVIOUS (JUN-18)	£M	22.9	18.6	16.9
VARIANCE	£M	(4.8)	(2.8)	(2.3)

Gas Prices



- Note that positions shown are relative to the Jun-18 forecast
- Graph shows the marked change in forecast in just one quarter
- Our data is externally sourced from ICIS

Cost of Debt

COST OF DEBT		2019/20	2020/21	2021/22	2022/23	
EAST OF ENGLAND (£M)	▼	(3.3)	(1.9)	(1.7)	(2.5)	
LONDON (£M)	▼	(2.4)	(1.4)	(1.3)	(1.9)	
NORTH WEST (£M)	▼	(2.3)	(1.3)	(1.2)	(1.8)	
WEST MIDLANDS (£M)	▼	(1.8)	(1.0)	(0.9)	(1.3)	
CADENT (£M)	▼	(9.8)	(5.5)	(5.0)	(7.5)	
EAST OF ENGLAND (%)	▼	(0.5%)	(0.3%)	(0.3%)	(0.4%)	
LONDON (%)	▼	(0.5%)	(0.3%)	(0.2%)	(0.4%)	
NORTH WEST (%)	▼	(0.5%)	(0.3%)	(0.2%)	(0.3%)	
WEST MIDLANDS (%)	▼	(0.5%)	(0.3%)	(0.2%)	(0.4%)	
CADENT (%)	▼	(0.5%)	(0.3%)	(0.2%)	(0.4%)	
COST OF DEBT % FORECAST		2018/19	2019/20	2020/21	2021/22	2022/23
ORIGINAL FINAL PROPOSALS		2.92%	2.92%	2.92%		
JUN-18 FORECAST		1.91%	1.60%	1.15%	0.95%	0.76%
SEP-18 FORECAST		1.91%	1.57%	1.12%	0.88%	0.66%

- Note that positions shown are relative to the Jun-18 forecast
- Based on internal 10 year trailing average forecasts
- 2019/20 includes the retrospective adjustment relating to the previous cessation of Bank of England data
- Actual cost of debt for 2019/20 will be determined in the November AIP
- An updated position will be included in the December report

Streetworks Uncertainty

STREETWORKS UNCERTAINTY		2019/20	2020/21
EAST OF ENGLAND (£M)	▲	10.6	3.3
LONDON (£M)	▲	-	-
NORTH WEST (£M)	▲	-	-
WEST MIDLANDS (£M)	▲	-	-
CADENT (£M)	▲	10.6	3.3
EAST OF ENGLAND (%)	▲	+1.6%	+0.5%
LONDON (%)	▲	-	-
NORTH WEST (%)	▲	-	-
WEST MIDLANDS (%)	▲	-	-
CADENT (%)	▲	+0.5%	+0.2%

- Note that positions shown are relative to the Jun-18 forecast
- Reflects the minded to position included in Ofgem’s consultation document
- Note that the revenue impact is in nominal terms
- The value in 2019/20 includes the element of catch up funding for revised allowances for prior years
- Because Ofgem’s minded to position is lower than the value applied for, the impact included as a risk item in the September report is lower than previously indicated

Smart Metering Uncertainty

SMART METERING UNCERTAINTY		2020/21	2021/22	2022/23
EAST OF ENGLAND (£M)	▲	-	(6.5)	-
LONDON (£M)	▲	-	(5.9)	-
NORTH WEST (£M)	▲	-	(6.1)	-
WEST MIDLANDS (£M)	▲	-	(3.6)	-
CADENT (£M)	▲	-	(22.1)	-
EAST OF ENGLAND (%)	▲	-	(1.0%)	-
LONDON (%)	▲	-	(1.1%)	-
NORTH WEST (%)	▲	-	(1.2%)	-
WEST MIDLANDS (%)	▲	-	(0.9%)	-
CADENT (%)	▲	-	(1.1%)	-

- Note that positions shown are relative to the Jun-18 forecast
- Reflects the latest cost forecast position included in the 2017/18 RRP
- We had previously included a conservative downward workload related risk against previous forecasts, and the actual downward movement is greater than previously indicated
- Still assuming revenue adjustment in 2021/22, and carrying a risk item that this could still be determined within GD-1

Tier 2A Repex Uncertainty

TIER 2 REPEX UNCERTAINTY		2019/20	2020/21
EAST OF ENGLAND (£M)	▲	0.1	0.0
LONDON (£M)	▼	(1.2)	(0.2)
NORTH WEST (£M)	▼	(1.0)	(0.2)
WEST MIDLANDS (£M)	▼	(0.6)	(0.1)
CADENT (£M)	▼	(2.7)	(0.4)
EAST OF ENGLAND (%)	▲	+0.0%	+0.0%
LONDON (%)	▼	(0.3%)	(0.0%)
NORTH WEST (%)	▼	(0.2%)	(0.0%)
WEST MIDLANDS (%)	▼	(0.2%)	(0.0%)
CADENT (%)	▼	(0.1%)	(0.0%)

- Note that positions shown are relative to the Jun-18 forecast
- This mechanism updates annually via the RRP for volumes of Repex length delivery other than that mandated by the HSE
- The downward movement reflects the latest actual position reported to Ofgem relative the assumption included in the provisional allowances

Totex Performance

TOTEX PERFORMANCE		2019/20	2020/21
EAST OF ENGLAND (£M)	▲	(2.2)	8.0
LONDON (£M)	▼	(8.0)	(0.5)
NORTH WEST (£M)	▼	(2.4)	0.7
WEST MIDLANDS (£M)	▼	(2.0)	(1.6)
CADENT (£M)	▼	(14.6)	6.6
EAST OF ENGLAND (%)	▲	(0.3%)	+1.2%
LONDON (%)	▼	(1.7%)	(0.1%)
NORTH WEST (%)	▼	(0.5%)	+0.1%
WEST MIDLANDS (%)	▼	(0.6%)	(0.5%)
CADENT (%)	▼	(0.7%)	+0.3%

- Note that positions shown are relative to the Jun-18 forecast
- Revenue impact of alignment to latest RRP forecast
- Note that this is composite impact of all Opex, Capex and Repex updates
- Shippers had previously requested that we only show an overall Totex change to revenue given the complexity in relating revenue movements to the cost forecasts
- For more information on our 2017/18 Totex performance, and 8 year forecast, please see Cadent's Strategic Performance Overview published in July at the link below

[Cadent 2018 Strategic Performance Overview](#)

Stakeholder Incentive

STAKEHOLDER INCENTIVE		2019/20	2020/21	2021/22	2022/23
EAST OF ENGLAND (£M)	▼	(0.4)	(0.1)	(0.1)	(0.1)
LONDON (£M)	▼	(0.3)	(0.0)	(0.0)	(0.0)
NORTH WEST (£M)	▼	(0.3)	(0.0)	(0.0)	(0.0)
WEST MIDLANDS (£M)	▼	(0.2)	(0.0)	(0.0)	(0.0)
CADENT (£M)	▼	(1.3)	(0.2)	(0.2)	(0.2)
EAST OF ENGLAND (%)	▼	(0.1%)	(0.0%)	(0.0%)	(0.0%)
LONDON (%)	▼	(0.1%)	(0.0%)	(0.0%)	(0.0%)
NORTH WEST (%)	▼	(0.1%)	(0.0%)	(0.0%)	(0.0%)
WEST MIDLANDS (%)	▼	(0.1%)	(0.0%)	(0.0%)	(0.0%)
CADENT (%)	▼	(0.1%)	(0.0%)	(0.0%)	(0.0%)

- Reflects the 2017/18 score of 6.0
- Forecast updated slightly to reflect GD-1 average score

GD-2 Base Revenue Forecast

RIIO GD-2 FORECAST	2021/22					2022/23				
NETWORK	EE	LO	NW	WM	CADENT	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE (2009/10 PRICES)	496.2	347.2	360.6	270.0	1,474.0	496.2	347.2	360.6	270.0	1,474.0
ADJ BUSINESS RATES ALLOWANCE TO 2020/21 LEVEL	(2.3)	16.5	10.0	6.2	30.4	(2.3)	16.5	10.0	6.2	30.4
ADJ LICENCE FEES ALLOWANCE TO 2020/21 LEVEL	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)
ADJ EXIT CAPACITY ALLOWANCE TO EXPECTED FORECAST LEVEL	(4.5)	(1.7)	(1.7)	(0.5)	(8.4)	(3.7)	(1.8)	(3.2)	(1.5)	(10.1)
ADJ SHRINKAGE COST ALLOWANCE TO 2020/21 LEVEL	(2.4)	(1.4)	(1.7)	(1.4)	(6.9)	(2.4)	(1.4)	(1.7)	(1.4)	(6.9)
RESET TAX ALLOWANCE AT 17%	(6.3)	(4.3)	(4.5)	(3.4)	(18.6)	(6.3)	(4.3)	(4.5)	(3.4)	(18.6)
CONTINUATION OF 10 YEAR COST OF DEBT INDEXATION	(32.7)	(25.2)	(23.4)	(17.9)	(99.2)	(36.3)	(27.9)	(25.9)	(19.8)	(109.9)
BASE REVENUE ASSUMPTION (2009/10 PRICES)	447.8	331.0	339.2	252.9	1,370.9	445.0	328.3	335.2	250.0	1,358.5
SMART METERING UNCERTAINTY (2009/10 PRICES)	6.7	3.5	3.8	2.9	16.8	-	-	-	-	-
INFLATION (CONTINUATION OF RPI INDEXATION)	200.7	147.7	151.5	113.0	612.8	216.7	159.9	163.3	121.8	661.7
BASE REVENUE (NOMINAL)	655.1	482.2	494.4	368.8	2,000.5	661.8	488.1	498.5	371.8	2,020.2

- For the GD-2 forecasts, maintaining our approach of flexing 2020/21 base revenue per the GD-1 Final Proposals for items that could reasonably be predicted
- Reset allowances for pass through items based on current view
- Tax allowances can be easily updated to current anticipated levels against the 21% included in the GD-1 FP
- Cost of debt is based on continuation of the 10 year index against the original 2.92% included in the RIIO GD-1 Final Proposals

GD-2 Allowed Revenue Forecast

RIIO GD-2 FORECAST	2021/22					2022/23				
NETWORK	EE	LO	NW	WM	CADENT	EE	LO	NW	WM	CADENT
BASE REVENUE (NOMINAL)	655.1	482.2	494.4	368.8	2,000.5	661.8	488.1	498.5	371.8	2,020.2
GD-1 LAGGED PASS THROUGH ADJUSTMENT	(12.9)	20.0	9.0	4.9	20.9	(14.0)	19.9	8.6	4.6	19.1
GD-1 LAGGED NET EXIT CAPACITY INCENTIVE ADJUSTMENT	8.5	3.7	5.3	2.0	19.4	6.1	2.8	4.1	1.6	14.6
GD-1 LAGGED NET EXIT CAPACITY COST ADJUSTMENT	(9.0)	(4.2)	(3.7)	(1.8)	(18.8)	(7.3)	(2.6)	(3.1)	(0.6)	(13.5)
GD-1 LAGGED SHRINKAGE INCENTIVE ADJUSTMENT	0.7	0.5	0.5	0.4	2.1	1.2	0.4	0.7	0.4	2.7
GD-1 LAGGED SHRINKAGE COST ADJUSTMENT	(2.9)	(1.7)	(2.0)	(1.7)	(8.4)	(3.8)	(2.2)	(2.6)	(2.3)	(10.9)
GD-1 LAGGED BROAD MEASURE INCENTIVE ADJUSTMENT	5.0	3.4	3.6	2.7	14.7	5.1	3.5	3.6	2.7	14.9
GD-1 LAGGED ENVIRONMENTAL EMISSIONS INCENTIVE ADJUSTMENT	3.8	2.6	2.8	2.0	11.1	6.7	2.9	3.9	2.3	15.8
GD-1 LAGGED DRS ADJUSTMENT	-	-	-	-	-	-	-	-	-	-
IN YEAR NETWORK INNOVATION ADJUSTMENT	4.1	3.0	3.1	2.3	12.6	4.2	3.1	3.1	2.3	12.7
GD-1 CORRECTION TERM	0.3	0.1	0.3	0.2	1.0	-	-	-	-	-
MAXIMUM ALLOWED REVENUE (NOMINAL)	652.7	509.5	513.2	379.7	2,055.1	659.9	515.9	517.0	382.8	2,075.6

- Outside of the base revenue estimate, our forecasts assume continuation of RPI based inflation indexation, and lagged pass through and output incentive adjustments from GD-1
- Although the GD-1 Network Innovation Allowance mechanism may not exist in its current form, we have assumed roll forwards. This may ultimately become a substitution between output incentives and base revenue (Totex)

GD-2 Allowed Revenue Forecast

- Ofgem published the [decision document for the RIIO-2 Framework Consultation](#) on 30th July
- Aside from the decision for a 5 year price control, there are not many firm anchor points that provide clarity of impacts to revenue forecasts for the start of RIIO GD-2
- However, Ofgem have made a clear decision on a move to CPIH for inflation indexation of revenue in RIIO GD-2
- Implementation of this change will be complex as inflation touches upon many aspects of the regulatory finance and economic framework, and Ofgem are doing further work as to whether this move needs to be made on a transitional basis
- However, all else being equal, a move to CPIH indexation without transition will increase allowed revenue in the first instance. This may seem counter intuitive as we know that CPI tracks lower than RPI. It therefore may be useful to explain why an increase in revenue would be the expected outcome in RIIO GD-1

GD-2: CPIH Indexation

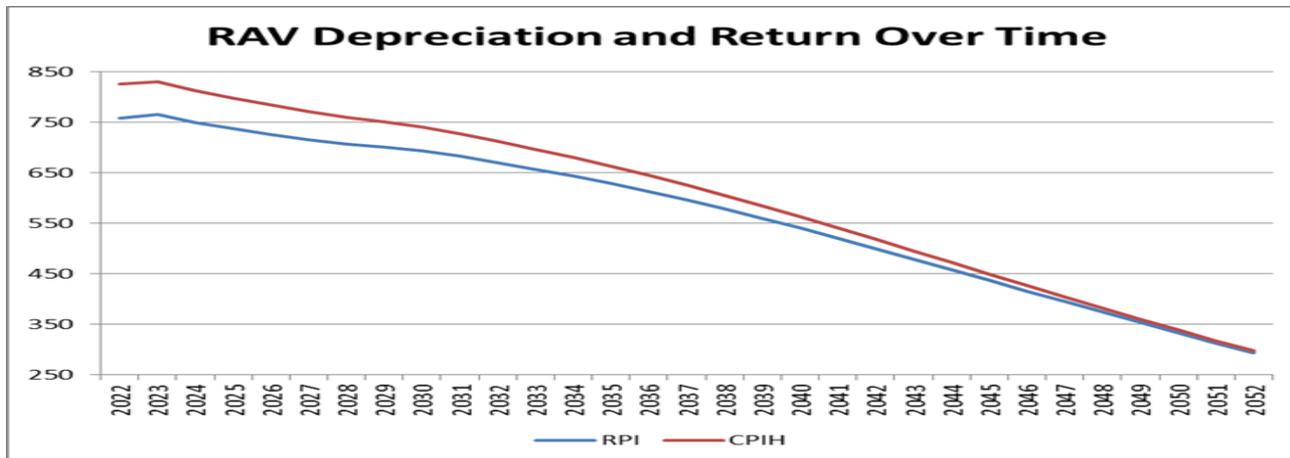
- The regulatory financial model currently provides for a real, RPI stripped cost of capital
- This then acts upon the NPV neutral average Regulatory Asset Value (RAV) expressed in real prices.
- Return on RAV is a major component of base revenue (around 19% of GD-1 revenue on average)
- Base revenue is inflated from real prices using an inflation index (currently RPI indexed from a base year zero in 2009/10 i.e. where index = 1.000)
- Whilst CPIH indexation would result in a lower uplift in base revenue from the base year (assume this to be 2017/18 for RIIO GD-2) a CPIH stripped cost of capital would be higher than its RPI stripped counterpart
- The effect is simulated on the following illustrative slide, which looks at the East of England network, as if the price control had started in 2018/19 with a base year of 2017/18 for cost indexation

GD-2: CPIH Indexation (illustrative example)

ITEM	DESCRIPTION	FORMULA	RPI BASIS	CPIH BASIS
A	ALLOWED WEIGHTED AVERAGE COST OF CAPITAL (NOMINAL)		6.5%	6.5%
B	LONG RUN INFLATION		2.8%	1.8%
C	ALLOWED WEIGHTED AVERAGE COST OF CAPITAL (REAL INFLATION STRIPPED)	$(1+A) / (1+B) - 1$	3.6%	4.6%
D	NPV NEUTRAL AVERAGE RAV FOR YEAR (2017/18 PRICES)		3,101	3,087
E	RETURN ON RAV (2017/18 PRICES)	$C \times D$	111	142
F	TAX ON ADDITIONAL RETURN	$E_2 - E_1 \times 19\%$	0	6
G	OTHER ELEMENTS OF BASE REVENUE (2017/18 PRICES)		504	504
H	TOTAL BASE REVENUE (2017/18 PRICES)	$E + F + G$	615	652
I	ONE YEAR OF INFLATION INDEXATION		3.3%	2.4%
J	INFLATED RETURN + ADDITIONAL TAX	$H \times (1 + I)$	636	667

GD-2: CPIH Indexation

- Ofgem have noted this effect in their decision document, and we broadly concur with their appraisal of possible impact to revenue and bills in RIIO-2 in a step change scenario
- The move to CPIH indexation should be NPV neutral in the long run, but will take a number of years to unwind, this is illustrated in the graph below



- For illustration only
- Graph based on GD-2 opening RAV without further investment
- Demonstrates how RAV depreciation and return will converge in the long term, with the situation reversing thereafter

Risks and Sensitivities

- We are showing the following items as risks to our Sep-18 forecast:

RISKS & SENSITIVITIES	2018/19	2019/20	2020/21	2021/22	2022/23
REDUCTIONS IN NETWORK INNOVATION EXPENDITURE	-	(3.0)	(3.1)	-	-
SMART METERING UM: TIMING OF DETERMINATION	-	-	23.5	(24.2)	-
NTS EXIT CAPACITY COST: INDICATIVE IMPACT OF MOD0621 (LAGGED GD-1 IMPACT)	-	-	-	(33.5)	(48.6)
NTS EXIT CAPACITY COST: INDICATIVE IMPACT OF MOD0621 (ALLOWANCE RESET)	-	-	-	(11.9)	3.2

Anticipated updates in December

- **The December report will include:**
 - **Actual cost of debt update (following AIP)**
 - **Other AIP impacts (but September forecast should be robust)**
 - **Crystallisation of the RPIFt term for 2019/20**
 - **Updated demand information and impact on final 2019/20 prices**

Indicative 2019/20 Charges

- Indicative transportation charges for 2019/20 are due by 31st October 2018
- A draft position has been calculated for the purposes of the September MOD0186 and summarised in the table below.
- Ahead of finalisation of the indicative charges, we would expect updated positions on:
 - Cost of debt forecast for 2019/20 allowed revenue
 - EUC load factors by load band
 - Updated rolling AQ positions
 - DN entry flow data (impacts LDZ commodity charge)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	+0.9%	+7.6%	+5.9%	+3.6%	+4.1%
CORRECTION FOR PRIOR YEAR OVER / UNDER RECOVERY	+0.0%	+0.0%	+0.0%	(0.0%)	+0.0%
IMPACT OF LOAD FACTORS ON SOQ	+0.9%	+1.8%	+2.0%	+1.4%	+1.5%
CHANGES IN AGGREGATE DEMAND	(1.9%)	(1.0%)	(2.3%)	(1.5%)	(1.7%)
AGGREGATE PRICE CHANGE	(0.1%)	+8.4%	+5.5%	+3.4%	+3.9%

Indicative 2019/20 Charges

- Table below shows how demand positions have evolved from the adjusted snapshots used to set the 2018/19 prices
- Based on Xoserve volume reports up to August 2018
- The load factor impact has been modelled at a high level at this stage but will be re-validated as part of finalising the 2019/20 indicative charges
- Any variances will be noted in the price notification document and the next MOD0186 report

	AQ	SOQ (PRE LOAD FACTOR)	IMPACT OF LOAD FACTOR CHANGE	SOQ (POST LOAD FACTOR)
EAST OF ENGLAND	1.3%	0.9%	(0.9%)	(0.0%)
LONDON	1.0%	0.6%	(1.8%)	(1.2%)
NORTH WEST	2.9%	1.5%	(2.0%)	(0.4%)
WEST MIDLANDS	0.2%	1.0%	(1.4%)	(0.4%)