



Dec-19 MOD0186 & RIIO-GD2 Revenue Forecast

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Cadent
Your Gas Network

Key Updates for December 2019 MOD0186

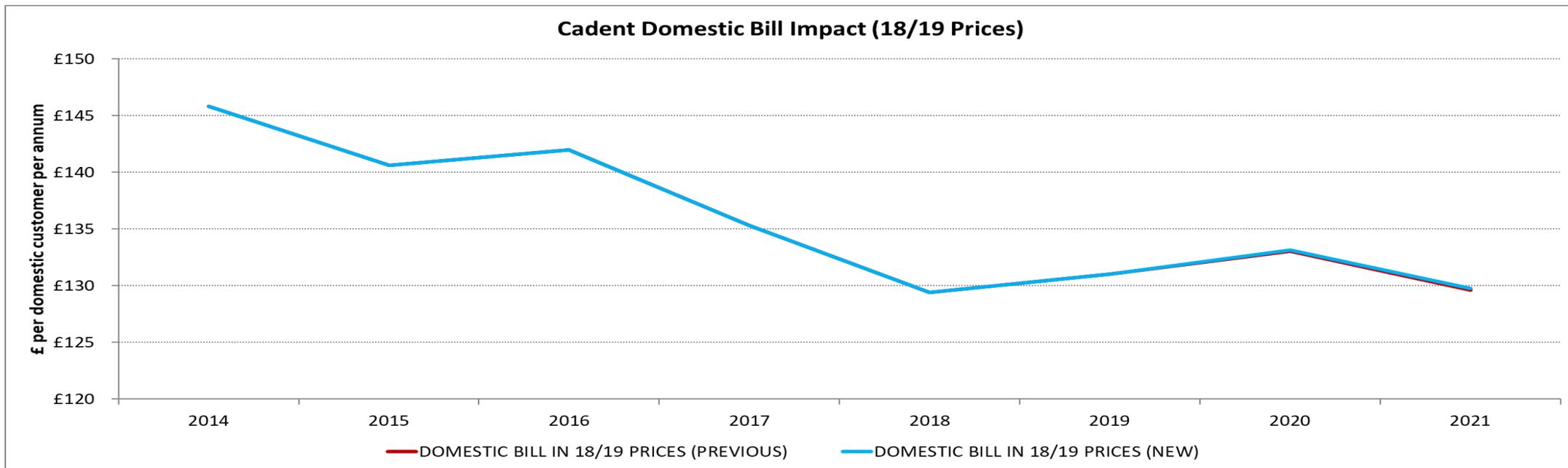
The December MOD0186 provides an updated collected revenue view for the final two years of RIIO-GD1 and an allowed revenue forecast for RIIO-GD2 aligned to the final Business Plan submission in December.

The three key updates this time are:

- A revised collected revenue forecast reflecting our current expectation for 2019/20 revenue recovery
- The final Annual Iteration Process (MODt) adjustment for 2020/21
- A RIIO-GD2 allowed revenue forecast, confirming the key assumptions and financial parameters along with a timeline of key milestones.

Summary Position

HEADLINE MOVEMENT SINCE LAST REPORT	CADENT GAS LTD							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,936.1
MOVEMENT ▼	-	-	-	-	-	-	0.8	(2.9)
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,958.7	1,933.3
% MOVEMENT	-	-	-	-	-	-	+0.0%	(0.1%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£145.83	£140.63	£141.97	£135.30	£129.43	£131.03	£133.03	£129.61
MOVEMENT ▲	-	-	-	-	-	-	+£0.11	+£0.15
DOMESTIC BILL IN 18/19 PRICES (NEW)	£145.83	£140.63	£141.97	£135.30	£129.43	£131.03	£133.15	£129.76



Collectable Revenue Trace

COLLECTABLE REVENUE TRACE		CADENT GAS LTD							
		2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,936.1
COLLECTED REVENUE FORECAST	▼	-	-	-	-	-	-	0.8	1.2
FINAL AIP DETERMINATION FOR 2020/21 (DUE TO COST OF DEBT)	▼	-	-	-	-	-	-	-	(4.0)
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,958.7	1,933.3
% MOVEMENT		-	-	-	-	-	-	+0.0%	(0.1%)

There are just two changes from the September quarterly revenue forecast;

- Firstly a revised collected revenue forecast for 2019/20
- Secondly the final Annual Iteration Process (AIP) adjustment for 2020/21.

Collected Revenue Forecast

COLLECTED REVENUE FORECAST		2020	2021
EAST OF ENGLAND (£M)	▲	(1.9)	0.4
LONDON (£M)	▼	(0.0)	0.3
NORTH WEST (£M)	▼	0.7	0.3
WEST MIDLANDS (£M)	▼	2.0	0.2
CADENT (£M)	▼	0.8	1.2
EAST OF ENGLAND (%)	▲	(0.3%)	+0.1%
LONDON (%)	▲	(0.0%)	+0.1%
NORTH WEST (%)	▲	+0.1%	+0.1%
WEST MIDLANDS (%)	▼	+0.6%	+0.1%
CADENT (%)	▲	+0.0%	+0.1%

- This forecast takes into consideration invoices from April 2019 through to October 2019 to inform our latest collected revenue view
- We are currently sign posting a £4.8m over recovery for 2019/20 at a Cadent level which equates to 0.25%

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
2019-20 ALLOWED REVENUE (£M)	650.5	466.5	480.3	356.6	1,953.9
2019-20 COLLECTED REVENUE FORECAST (£M)	650.2	467.8	480.3	360.3	1,958.7
FORECAST UNDER RECOVERY (£M)	(0.2)	1.3	0.0	3.7	4.8
FORECAST UNDER RECOVERY %	(0.0%)	+0.3%	+0.0%	+1.0%	+0.25%

Final Annual Iteration Process Determination for 2020/21

FINAL AIP DETERMINATION FOR 2020/21 (DUE TO COST OF DEBT)			2020	2021
EAST OF ENGLAND (£M)	▼	-	(1.4)	
LONDON (£M)	▼	-	(1.0)	
NORTH WEST (£M)	▼	-	(1.0)	
WEST MIDLANDS (£M)	▼	-	(0.7)	
CADENT (£M)	▼	-	(4.0)	
EAST OF ENGLAND (%)	▼	-	(0.2%)	
LONDON (%)	▼	-	(0.2%)	
NORTH WEST (%)	▼	-	(0.2%)	
WEST MIDLANDS (%)	▼	-	(0.2%)	
CADENT (%)	▼	-	(0.2%)	

- This outlines the impact of the Annual Iteration Process (AIP) confirming the MODt adjustment for 2020/21
- The AIP adjustment is predominantly driven by a reduction in the cost of debt.

Allowed Revenue Summary

ALLOWED REVENUE SUMMARY (ALL FIGURES £M NOMINAL)	CADENT GAS LTD							
	2014	2015	2016	2017	2018	2019	2020	2021
OPENING BASE REVENUE ALLOWANCE	1,793.6	1,800.2	1,867.1	1,835.5	1,890.8	1,950.5	2,005.6	2,044.8
PCFM ANNUAL ITERATION ADJUSTMENT	-	(13.4)	(28.3)	(23.9)	(78.4)	(86.5)	(126.9)	(163.4)
RPI TRUE UP	-	-	6.5	(25.8)	(41.6)	(7.7)	5.1	(1.6)
BASE REVENUE	1,793.6	1,786.8	1,845.2	1,785.8	1,770.7	1,856.4	1,883.8	1,879.8
PASS THROUGH	0.2	(0.1)	2.9	4.3	15.2	15.4	49.4	47.8
EXIT CAPACITY (INCENTIVE)	-	-	5.0	11.4	28.1	21.2	22.6	23.0
EXIT CAPACITY (COST PASS THROUGH)	-	-	(4.0)	(2.7)	(10.6)	(10.3)	(10.1)	(33.6)
SHRINKAGE INCENTIVE	-	-	2.0	1.6	1.4	1.1	1.4	2.3
SHRINKAGE COST PASS THROUGH	-	-	(7.1)	(17.3)	(23.0)	(12.5)	(9.5)	(5.3)
BROAD MEASURE OF CUSTOMER SATISFACTION	-	-	5.8	4.6	7.9	8.4	8.5	10.2
ENVIRONMENTAL EMISSIONS INCENTIVE	-	-	6.5	7.1	8.2	6.7	7.4	10.4
DISCRETIONARY REWARD SCHEME	0.9	0.8	-	0.5	-	-	0.6	-
NETWORK INNOVATION ALLOWANCE	2.5	6.9	8.6	6.8	6.6	4.4	5.8	8.2
UNDER / OVER COLLECTION B/F	6.1	-	(20.7)	0.9	(9.8)	(19.4)	(5.9)	(8.5)
MAXIMUM ALLOWED REVENUE	1,803.4	1,794.4	1,844.1	1,803.0	1,794.8	1,871.4	1,953.9	1,934.4
COLLECTABLE REVENUE FORECAST	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,958.7	1,933.3
UNDER / OVER COLLECTION C/F	19.9	(0.9)	9.5	18.7	5.7	8.1	4.8	(1.1)

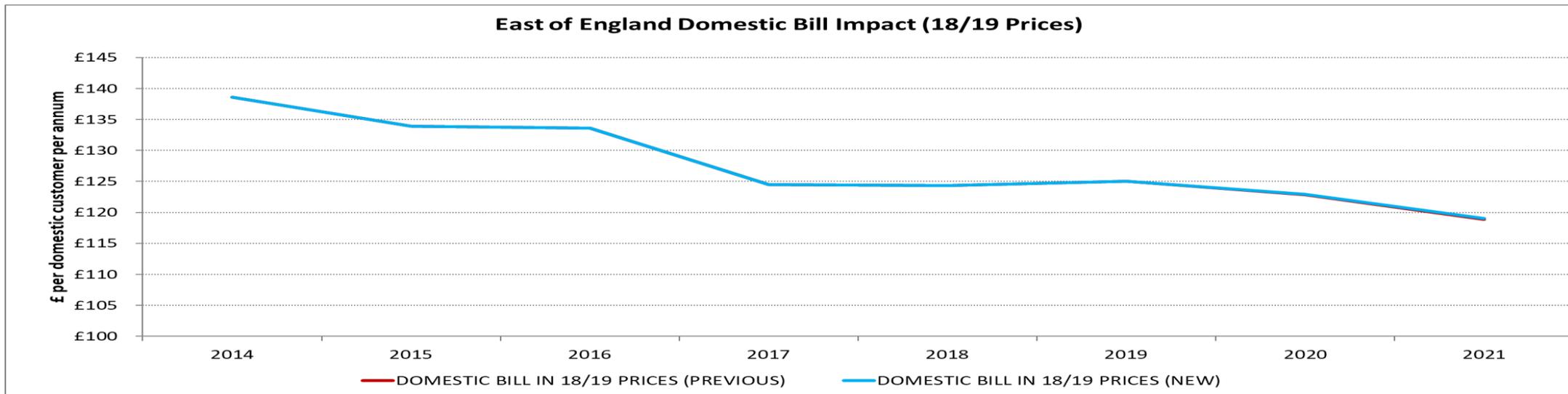
Anticipated updates in March 2020

The March report will include updates for:

- Final demand positions which will be utilised in the final charge setting process
- HM Treasury's forecast for the UK economy which will set the inflation basis for next year
- Standard monthly RPI updates
- Updated collected revenue positions

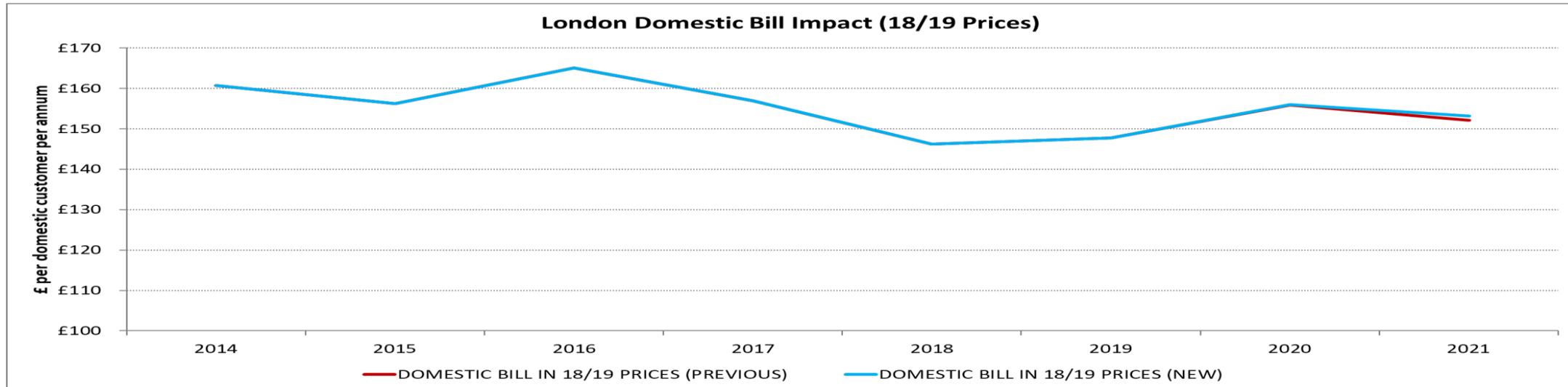
Summary Position: East of England

HEADLINE MOVEMENT SINCE LAST REPORT	EAST OF ENGLAND							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	621.2	609.5	623.0	601.2	619.5	645.9	652.2	640.4
MOVEMENT ▼	-	-	-	-	-	-	(1.9)	(0.9)
COLLECTABLE REVENUE (NEW)	621.2	609.5	623.0	601.2	619.5	645.9	650.2	639.5
% MOVEMENT	-	-	-	-	-	-	(0.3%)	(0.1%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£138.61	£133.92	£133.59	£124.48	£124.33	£125.04	£122.82	£118.85
MOVEMENT ▲	-	-	-	-	-	-	+£0.10	+£0.20
DOMESTIC BILL IN 18/19 PRICES (NEW)	£138.61	£133.92	£133.59	£124.48	£124.33	£125.04	£122.92	£119.05



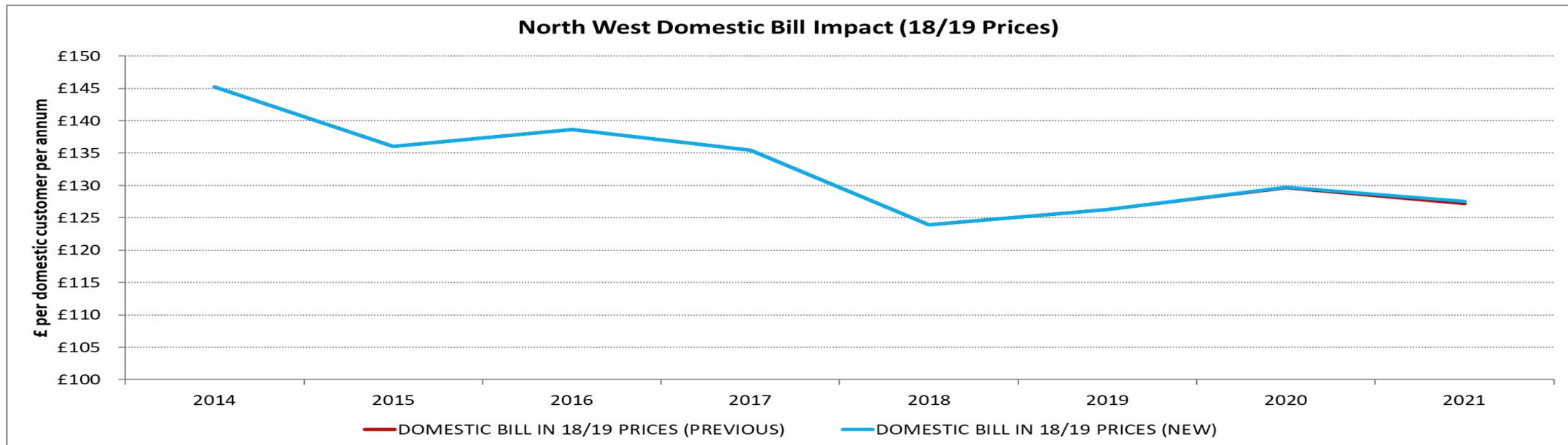
Summary Position: London

HEADLINE MOVEMENT SINCE LAST REPORT	LONDON							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	419.8	416.8	445.8	436.4	418.8	434.7	467.8	463.3
MOVEMENT ▼	-	-	-	-	-	-	(0.0)	(0.7)
COLLECTABLE REVENUE (NEW)	419.8	416.8	445.8	436.4	418.8	434.7	467.8	462.6
% MOVEMENT	-	-	-	-	-	-	(0.0%)	(0.1%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£160.75	£156.24	£165.03	£156.99	£146.28	£147.74	£155.92	£152.09
MOVEMENT ▼	-	-	-	-	-	-	+£0.13	+£1.03
DOMESTIC BILL IN 18/19 PRICES (NEW)	£160.75	£156.24	£165.03	£156.99	£146.28	£147.74	£156.05	£153.12



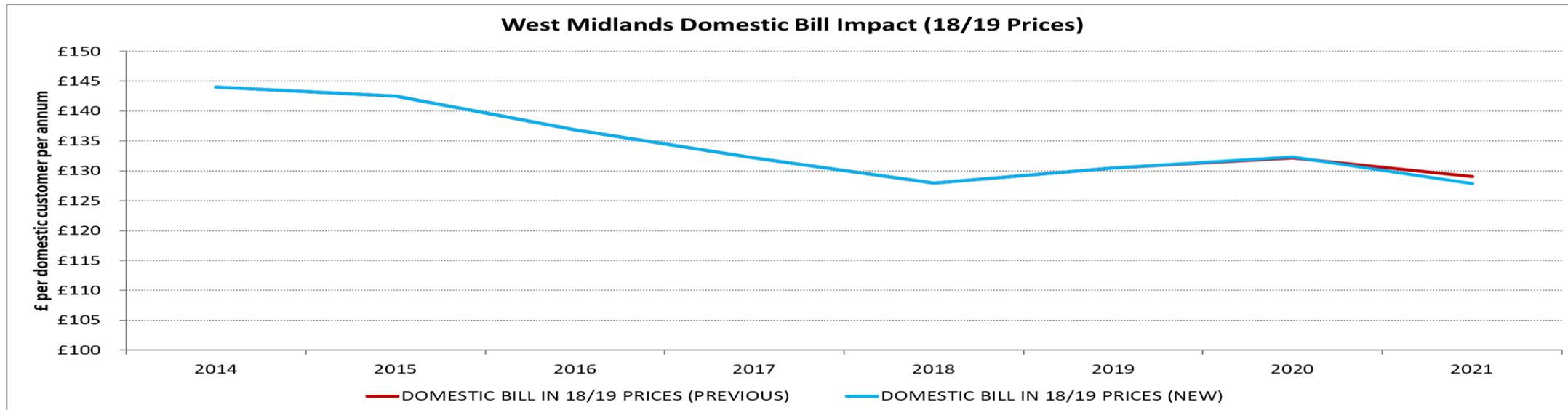
Summary Position: North West

HEADLINE MOVEMENT SINCE LAST REPORT	NORTH WEST								
	2014	2015	2016	2017	2018	2019	2020	2021	
COLLECTABLE REVENUE (PREVIOUS)	453.2	434.8	460.2	460.4	434.6	453.8	479.7	478.9	
MOVEMENT ▼	-	-	-	-	-	-	0.7	(0.8)	
COLLECTABLE REVENUE (NEW)	453.2	434.8	460.2	460.4	434.6	453.8	480.3	478.1	
% MOVEMENT	-	-	-	-	-	-	+0.1%	(0.2%)	
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£145.24	£136.02	£138.65	£135.44	£123.93	£126.32	£129.66	£127.23	
MOVEMENT ▲	-	-	-	-	-	-	+£0.11	+£0.32	
DOMESTIC BILL IN 18/19 PRICES (NEW)	£145.24	£136.02	£138.65	£135.44	£123.93	£126.32	£129.77	£127.55	



Summary Position: West Midlands

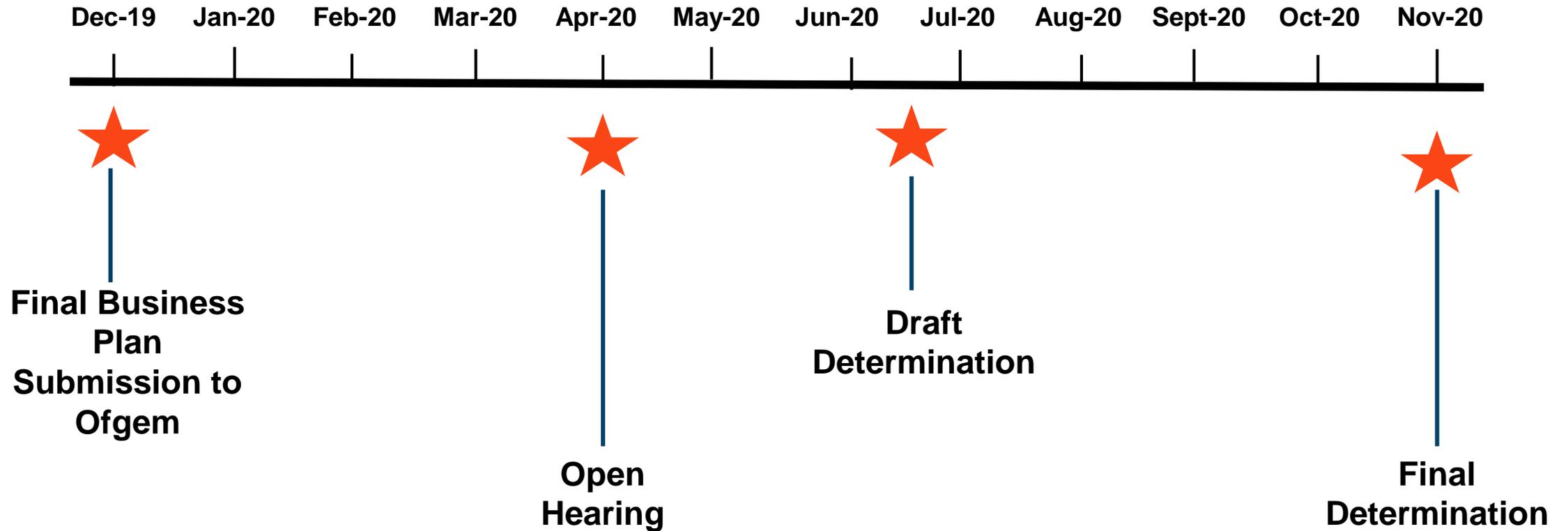
HEADLINE MOVEMENT SINCE LAST REPORT	WEST MIDLANDS								
	2014	2015	2016	2017	2018	2019	2020	2021	
COLLECTABLE REVENUE (PREVIOUS)	329.1	332.3	324.6	323.8	327.6	345.0	358.2	353.5	
MOVEMENT ▲	-	-	-	-	-	-	2.0	(0.5)	
COLLECTABLE REVENUE (NEW)	329.1	332.3	324.6	323.8	327.6	345.0	360.3	353.0	
% MOVEMENT	-	-	-	-	-	-	+0.6%	(0.1%)	
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£144.00	£142.53	£136.90	£132.12	£127.93	£130.46	£132.19	£129.01	
MOVEMENT ▼	-	-	-	-	-	-	+£0.11	(£1.18)	
DOMESTIC BILL IN 18/19 PRICES (NEW)	£144.00	£142.53	£136.90	£132.12	£127.93	£130.46	£132.30	£127.83	



Cadent RII0-GD2 REVENUE FORECAST



RIO-GD2 Timeline



Cadent RIIO-GD2 Key Financial Parameters

KEY FINANCIAL PARAMETERS	2021/22	2022/23	2023/24	2024/25	2025/26
INFLATION INDEX (2018/19 TO OUTTURN)	1.079	1.101	1.123	1.145	1.168
COST OF EQUITY	4.27%	4.29%	4.30%	4.31%	4.32%
COST OF DEBT	2.03%	1.96%	1.91%	1.88%	1.86%
WACC	2.93%	2.89%	2.87%	2.85%	2.84%
GEARING	60.00%	60.00%	60.00%	60.00%	60.00%
CORPORATION TAX RATE	17.00%	17.00%	17.00%	17.00%	17.00%
OPEX / CAPEX CAPITALISATION RATE (NETWORK SPECIFIC)	VARIES BETWEEN 24%-31% DEPENDENT ON THE NETWORK				
REPEX CAPITALISATION RATE	100%	100%	100%	100%	100%

- This table outlines the key financial parameters utilised when developing the RIIO-GD2 revenue forecast
- These values are subject to agreement through the RIIO-GD2 price control review process with Ofgem

Cadent RIIO-GD2 Base Revenue Key Assumptions

BASE REVENUE COMPONENT	KEY ASSUMPTION/BASIS OF FORECAST
REGULATORY DEPRECIATION (PRE RIIO-GD2 RAV)	NO CHANGE TO ASSET LIFE (45 YEARS) ASSUMPTION OR DEPRECIATION METHODOLOGY (SUM OF DIGITS)
BUSINESS RATES	EMULATION OF VALUATION OFFICE APPROACH AND BASED ON ALLOWED REVENUE PROJECTIONS FROM 2019/20 TO 2025/26
EXIT CAPACITY	BASED ON MAY 2019 INDICATIVE NTS PRICES AND CONTINUATION OF CURRENT CAPACITY BOOKING STRATEGY
SHRINKAGE	BASED ON CURRENT SHRINKAGE AND LEAKAGE ESTIMATION METHODOLOGY AND ALIGNED TO MAINS REPLACEMENT ASSUMPTIONS
ESTABLISHED PENSION DEFICIT FUNDING	ASSUMES CESSATION OF ESTABLISHED PENSION DEFICIT FUNDING REQUIREMENTS BY 2022/23
TOTEX	BASED ON CADENT'S PROPOSED TOTEX ALLOWANCE LEVELS PER DECEMBER 2019 PLAN SUBMISSION
DEBT FINANCING	OFGEM COST OF DEBT ASSUMPTIONS
EQUITY FINANCING	OFGEM COST OF EQUITY ASSUMPTION. ALSO INCLUDES EQUITY ISSUANCE COST ALLOWANCE IN YEAR 1
OUTPERFORMANCE	OFGEM BUSINESS PLAN ASSUMPTION OF 0.5% RORE OUTPERFORMANCE
ADJUSTMENT FROM PREVIOUS PRICE CONTROL	LOGGED UP IMPACT OF PROPERTY DISPOSALS MADE IN RIIO-GD1
TAX ALLOWANCE	ASSUMES CONTINUATION OF RIIO-GD1 TAX ALLOWANCE CALCULATION METHODOLOGY

Cadent RIIO-GD2 Allowed Revenue Forecast

DESCRIPTION	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
BASE REVENUE NOMINAL	NOMINAL	1,882.1	1,941.7	1,926.0	1,939.0	1,967.0
LAGGED RIIO-GD1 REVENUE ADJUSTMENTS						
BUSINESS RATES PASS THROUGH ADJUSTMENT	NOMINAL	49.3	47.9			
LICENCE FEE PASS THROUGH ADJUSTMENT	NOMINAL	1.0	1.1			
NTS PENSION DEFICIT PASS THROUGH ADJUSTMENT	NOMINAL	(27.0)	(27.4)			
PASS THROUGH ADJUSTMENTS	NOMINAL	23.4	21.5			
EXIT CAPACITY COST PASS THROUGH ADJUSTMENT	NOMINAL	(30.0)	(18.8)			
EXIT CAPACITY INCENTIVE REVENUE ADJUSTMENT	NOMINAL	20.0	14.9			
EXIT CAPACITY ADJUSTMENTS	NOMINAL	(10.1)	(3.9)			
SHRINKAGE COST PASS THROUGH ADJUSTMENT	NOMINAL	(15.9)	(10.4)			
SHRINKAGE INCENTIVE ADJUSTMENT	NOMINAL	2.4	2.8			
SHRINKAGE ADJUSTMENTS	NOMINAL	(13.4)	(7.6)			
ENVIRONMENTAL EMISSIONS INCENTIVE	NOMINAL	10.4	14.7			
CUSTOMER SATISFACTION INCENTIVE REVENUE	NOMINAL	9.8	9.8			
COMPLAINTS INCENTIVE REVENUE	NOMINAL	-	-			
STAKEHOLDER INCENTIVE REVENUE	NOMINAL	3.8	3.9			
DISCRETIONARY REWARD SCHEME	NOMINAL	-	-			
NETWORK INNOVATION ALLOWANCE	NOMINAL	7.2	7.2	7.2	7.2	7.2
INCENTIVES ADJUSTMENTS	NOMINAL	31.1	35.7	7.2	7.2	7.2
CORRECTION TERM	NOMINAL	(3.7)	1.0			
MAXIMUM ALLOWED REVENUE	NOMINAL	1,909.4	1,988.4	1,933.2	1,946.2	1,974.2

- This table shows the breakdown from Base to allowed revenue for RIIO-GD2 outlining the lagged adjustments from RIIO-GD1
- A breakdown of base revenue is provided in an Excel format publication on the [Joint Office website](#)
- This is the current RIIO-GD2 revenue forecast which is subject to agreement through the RIIO-GD2 price control review process with Ofgem



Thank you