

NGGD MOD0186 March 2016

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Approach for March 2016 MOD0186

- Majority of significant updates made for Oct-15 report (ahead of Indicative Charges) and Dec-15 report (ahead of Final Charges)
- Mar-16 report therefore relatively light in terms of volume of updates:
 - Updated HMT 'Forecasts for UK Economy' published Feb-16
 - Published RPI for Nov-15, Dec-15 & Jan-16
 - Cost of debt % rates following reconciliation to 2015 Annual Iteration Process
 - Pension deficit pass through cross checked to Jan-16 NTS price notification (no material change)
 - Monthly actual exit capacity invoices from NTS (drives value of true up to allowances, but no material change)
 - Update for indicative exit capacity rates per Jan-16 NTS price notification (drives 2016/17 and 2017/18 actual costs, but no material change)
 - Review of YTD CSat performance on expected 2015/16 incentive performance
 - Actual collectable revenue positions for Dec-15 and Jan-16



Headline changes to collectable revenue

| NETWORK | | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|-------------------------------------|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| EAST OF ENGLAND | | 621.2 | 609.6 | 624.2 | 597.1 | 621.2 | 652.9 | 661.9 | 670.6 |
| LONDON | | 419.8 | 416.9 | 447.6 | 433.3 | 423.0 | 453.3 | 454.7 | 460.1 |
| NORTH WEST | | 453.2 | 434.8 | 461.8 | 453.5 | 435.2 | 466.4 | 478.7 | 486.3 |
| WEST MIDLANDS | | 329.1 | 332.3 | 325.8 | 321.6 | 327.6 | 350.3 | 358.4 | 361.8 |
| COLLECTABLE REVENUE (DEC-15) | | 1,823.3 | 1,793.6 | 1,859.4 | 1,805.4 | 1,807.0 | 1,922.8 | 1,953.6 | 1,978.8 |
| EAST OF ENGLAND | | 621.2 | 609.6 | 623.5 | 597.1 | 615.4 | 643.5 | 657.1 | 663.0 |
| LONDON | | 419.8 | 416.9 | 446.8 | 433.3 | 419.4 | 447.1 | 451.8 | 454.6 |
| NORTH WEST | | 453.2 | 434.8 | 461.1 | 453.5 | 431.3 | 460.6 | 476.4 | 481.1 |
| WEST MIDLANDS | | 329.1 | 332.3 | 325.0 | 321.6 | 325.1 | 345.8 | 356.5 | 357.7 |
| COLLECTABLE REVENUE (MAR-16) | | 1,823.3 | 1,793.6 | 1,856.4 | 1,805.5 | 1,791.2 | 1,897.0 | 1,941.9 | 1,956.4 |
| EAST OF ENGLAND | ▼ | - | - | (0.7) | 0.0 | (5.7) | (9.3) | (4.7) | (7.6) |
| LONDON | ▼ | - | - | (0.8) | 0.0 | (3.6) | (6.2) | (2.9) | (5.5) |
| NORTH WEST | ▼ | - | - | (0.7) | 0.0 | (3.9) | (5.8) | (2.3) | (5.2) |
| WEST MIDLANDS | ▼ | - | - | (0.8) | 0.0 | (2.5) | (4.5) | (1.9) | (4.0) |
| CHANGE (£M) | ▼ | - | - | (3.0) | 0.1 | (15.8) | (25.8) | (11.7) | (22.4) |
| EAST OF ENGLAND | ▼ | - | - | (0.1%) | 0.0% | (0.9%) | (1.4%) | (0.7%) | (1.1%) |
| LONDON | ▼ | - | - | (0.2%) | 0.0% | (0.9%) | (1.4%) | (0.6%) | (1.2%) |
| NORTH WEST | ▼ | - | - | (0.2%) | 0.0% | (0.9%) | (1.2%) | (0.5%) | (1.1%) |
| WEST MIDLANDS | ▼ | - | - | (0.2%) | 0.0% | (0.8%) | (1.3%) | (0.5%) | (1.1%) |
| CHANGE (%) | ▼ | - | - | (0.2%) | 0.0% | (0.9%) | (1.3%) | (0.6%) | (1.1%) |



High level change drivers

| | NGGD TOTAL | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| COLLECTABLE REVENUE (DEC-15) | 1,823.3 | 1,793.6 | 1,859.4 | 1,805.4 | 1,807.0 | 1,922.8 | 1,953.6 | 1,978.8 |
| INFLATION UPDATES (HMT & RPI) ▼ | - | - | 0.0 | (0.0) | (14.0) | (23.9) | (16.8) | (14.5) |
| COST OF DEBT FORECAST ▼ | - | - | - | - | (3.9) | (1.8) | 5.1 | (7.9) |
| REDUCTION TO BROAD MEASURE INCENTIVE ▼ | - | - | - | - | (1.0) | - | - | - |
| REVENUE COLLECTION (IN YEAR) ▼ | - | - | (3.0) | 0.1 | - | - | - | - |
| UNDER / OVER RECOVERY REPAYMENT ▲ | - | - | - | - | 3.1 | (0.1) | - | - |
| COLLECTABLE REVENUE (MAR-16) | 1,823.3 | 1,793.6 | 1,856.4 | 1,805.5 | 1,791.2 | 1,897.0 | 1,941.9 | 1,956.4 |
| CHANGE (£M) ▼ | - | - | (3.0) | 0.1 | (15.8) | (25.8) | (11.7) | (22.4) |
| CHANGE (%) ▼ | - | - | (0.2%) | 0.0% | (0.9%) | (1.3%) | (0.6%) | (1.1%) |

- Much of the movement vs Dec-15 MOD0186 comes from inflation following publication of the Feb-16 HMT 'Forecasts for the UK Economy', and with monthly RPI continuing to track behind forecast
- We have revised our cost of debt % forecast from 2017/18 to 2021 following review of the 2015 annual iteration process (signposted as a sensitivity in the Dec-15 MOD0186 report)
- YTD scores for Planned Work and Connections point to a reduction in 2015/16 incentive performance against our previous ambition



Inflation

| NETWORK | NOTES | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|------------------------------|---|---|-------------|---------------|---------------|---------------|---------------|---------------|
| EAST OF ENGLAND | <i>BASED ON FEB-16 HMT FORECASTS FOR UK ECONOMY & AVAILABLE RPI INDICES TO FEB-16</i> | ▼ | (0.0) | 0.0 | (4.8) | (8.8) | (6.4) | (5.0) |
| LONDON | | ▼ | 0.0 | 0.0 | (3.3) | (5.8) | (4.1) | (3.4) |
| NORTH WEST | | ▼ | 0.0 | 0.0 | (3.4) | (5.3) | (3.5) | (3.4) |
| WEST MIDLANDS | | ▼ | (0.0) | (0.0) | (2.5) | (4.1) | (2.8) | (2.6) |
| INFLATION (£M CHANGE) | | ▼ | 0.0 | (0.0) | (14.0) | (23.9) | (16.8) | (14.5) |
| EAST OF ENGLAND | | ▼ | (0.0%) | 0.0% | (0.8%) | (1.3%) | (1.0%) | (0.7%) |
| LONDON | | ▼ | 0.0% | 0.0% | (0.8%) | (1.3%) | (0.9%) | (0.7%) |
| NORTH WEST | | ▼ | 0.0% | 0.0% | (0.8%) | (1.1%) | (0.7%) | (0.7%) |
| WEST MIDLANDS | | ▼ | (0.0%) | (0.0%) | (0.8%) | (1.2%) | (0.8%) | (0.7%) |
| INFLATION (% CHANGE) | | ▼ | 0.0% | (0.0%) | (0.8%) | (1.2%) | (0.9%) | (0.7%) |

| NETWORK | NOTES | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|------------------------------|--------------------------------------|---|-------------|---------------|---------------|---------------|---------------|---------------|
| RPIf IMPACT | <i>DRIVEN BY FEB-16 HMT FORECAST</i> | ▼ | - | - | (13.2) | (16.1) | (18.2) | (15.7) |
| RPIa IMPACT | <i>DRIVEN BY MONTHLY RPI UPDATES</i> | ▼ | - | - | (0.8) | (8.7) | (0.0) | 0.0 |
| PASS THROUGH & INCENTIVES | <i>IMPACT ON 2 YEAR LAGGING</i> | ▲ | 0.0 | (0.0) | (0.1) | 0.9 | 1.4 | 1.2 |
| INFLATION (£M CHANGE) | | ▼ | 0.0 | (0.0) | (14.0) | (23.9) | (16.8) | (14.5) |
| RPIf IMPACT | | ▼ | - | - | (0.7%) | (0.8%) | (0.9%) | (0.8%) |
| RPIa IMPACT | | ▼ | - | - | (0.0%) | (0.5%) | (0.0%) | 0.0% |
| PASS THROUGH & INCENTIVES | | ▲ | 0.0% | (0.0%) | (0.0%) | 0.0% | 0.1% | 0.1% |
| INFLATION (% CHANGE) | | ▼ | 0.0% | (0.0%) | (0.8%) | (1.2%) | (0.9%) | (0.7%) |

- Inflation movements include updates to both the RPIf and RPIa terms
- Feb-16 HMT Medium Term Forecasts for UK Economy and standard RPI index updates up to Jan-16



Cost of Debt

| NETWORK | NOTES | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | |
|--|-------|---------|---------|---------|---------|---------|--------|
| COST OF DEBT % PROFILE (OCT-15) | | 2.47% | 2.31% | 2.11% | 1.80% | 1.69% | |
| COST OF DEBT % PROFILE (DEC-15) | | 2.38% | 2.20% | 2.00% | 1.74% | 1.37% | |
| COST OF DEBT % PROFILE (MAR-16) | | 2.38% | 2.24% | 2.08% | 1.88% | 1.57% | |
| EAST OF ENGLAND | ▼ | - | (1.4) | (0.5) | 1.7 | (2.6) | |
| LONDON | ▼ | - | (0.9) | (0.4) | 1.2 | (2.1) | |
| NORTH WEST | ▼ | - | (1.0) | (0.5) | 1.2 | (1.8) | |
| WEST MIDLANDS | ▼ | - | (0.6) | (0.4) | 0.9 | (1.4) | |
| COST OF DEBT (£M CHANGE) | | ▼ | - | (3.9) | (1.8) | 5.1 | (7.9) |
| EAST OF ENGLAND | ▼ | - | (0.2%) | (0.1%) | 0.3% | (0.4%) | |
| LONDON | ▼ | - | (0.2%) | (0.1%) | 0.3% | (0.5%) | |
| NORTH WEST | ▼ | - | (0.2%) | (0.1%) | 0.3% | (0.4%) | |
| WEST MIDLANDS | ▼ | - | (0.2%) | (0.1%) | 0.3% | (0.4%) | |
| COST OF DEBT (% CHANGE) | | ▼ | - | (0.2%) | (0.1%) | 0.3% | (0.4%) |

- **Reconciliation to 2015 annual iteration process gave rise to a review of future cost of debt % profile**
- **An indicative change was signposted as a sensitivity in the Dec-15 MOD0186 report**
- **However, finalisation of the forecast review points to a shallower decline in rates than previously indicated**



Broad Measure of Customer Satisfaction

| NETWORK | NOTES | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|---------------------------------------|---|---------|---------|---------|---------|---------|
| EAST OF ENGLAND | <i>NOTIONAL FORECAST UPDATE TO</i> | ▼ | - | (0.3) | - | - | (0.0) |
| LONDON | <i>REFLECT DIRECTIONAL MOVEMENT</i> | ▼ | - | (0.2) | - | - | 0.0 |
| NORTH WEST | <i>IN UNPLANNED & CONNECTIONS</i> | ▼ | - | (0.2) | - | - | (0.0) |
| WEST MIDLANDS | <i>AGAINST AMBITION</i> | ▼ | - | (0.2) | - | - | 0.0 |
| BROAD MEASURE INCENTIVE (£M CHANGE) | | ▼ | - | (1.0) | - | - | - |
| EAST OF ENGLAND | | ▼ | - | (0.1%) | - | - | (0.0%) |
| LONDON | | ▼ | - | (0.1%) | - | - | 0.0% |
| NORTH WEST | | ▼ | - | (0.1%) | - | - | (0.0%) |
| WEST MIDLANDS | | ▼ | - | (0.1%) | - | - | 0.0% |
| BROAD MEASURE INCENTIVE (% CHANGE) | | ▼ | - | (0.1%) | - | - | - |

- Previous forecast based on overall ambition for Broad Measure Incentive
- Position coming into final quarter of the year gives a reasonable indication of full year out-turn for Customer Satisfaction scores
- YTD position for Planned Work & Connections points to a reduction against our ambition – forecast notionally reduced pending confirmation of final positions via 2015/16 RRP
- Ambition for remainder of RIIO GD-1 to be reassessed as part of RRP business plan cycle



Revenue Collection

2015/16 FORECAST (AS AT DEC-15)

| | EE | LO | NW | WM | TOTAL |
|------------------------------|-------|-------|-------|-------|---------------|
| ALLOWED REVENUE (DEC-15) | 623.1 | 443.7 | 453.1 | 325.4 | 1845.3 |
| COLLECTABLE REVENUE (DEC-15) | 624.2 | 447.6 | 461.8 | 325.8 | 1859.4 |
| OVER / (UNDER) RECOVERY | 1.1 | 3.9 | 8.7 | 0.3 | 14.0 |
| % | 0.2% | 0.9% | 1.9% | 0.1% | 0.8% |

2015/16 FORECAST (AS AT MAR-16)

| | EE | LO | NW | WM | TOTAL |
|------------------------------|-------|-------|-------|-------|---------------|
| ALLOWED REVENUE (MAR-16) | 623.1 | 443.7 | 453.1 | 325.4 | 1845.3 |
| COLLECTABLE REVENUE (MAR-16) | 623.5 | 446.8 | 461.1 | 325.0 | 1856.4 |
| OVER / (UNDER) RECOVERY | 0.4 | 3.1 | 8.0 | -0.5 | 11.1 |
| % | 0.1% | 0.7% | 1.8% | -0.1% | 0.6% |

CHANGE

| | EE | LO | NW | WM | TOTAL |
|------------------------------|-------|-------|-------|-------|-------|
| ALLOWED REVENUE (MAR-16) | - | - | - | - | - |
| COLLECTABLE REVENUE (MAR-16) | (0.7) | (0.8) | (0.7) | (0.8) | (3.0) |
| OVER / (UNDER) RECOVERY | (0.7) | (0.8) | (0.7) | (0.8) | (3.0) |
| % | -0.1% | -0.2% | -0.2% | -0.2% | -0.2% |

- **2015/16 collectable revenue forecast has been carrying an expectation of over recovery since finalisation of Oct-15 SOQs**
- **Aggregate SOQs were higher than anticipated at the point of 2015/16 charge setting**
- **As at March 2016, still forecasting over recovery overall, but observe that mild weather has been diminishing the extent of this (i.e. through lower Commodity collection)**
- **March 2016 MOD0186 includes actual collected revenue positions up to Jan-15**



Other points to note

- **We are expecting to defer our Smart Metering Uncertainty submission until later in 2015. This will have the impact of delaying revenue impacts until 2018/19 at the earliest**
- **Currently developing the business case / revenue impact, and will advise at the earliest opportunity**
- **Domestic Customer Bill Analysis (Table 2) aligned to revised methodology adopted in Ofgem's 2014/15 RIIO GD-1 Report**
 - **Key change is a move to average AQ assumption at a local (DN) level – should bring the outcome closer to the realities of the underlying condition that underpin unit charges, whilst maintaining the right “story” in terms of impact profile over RIIO GD-1**
- **Business rates – rateable values will be recalculated with effect from 1st April 2017. Just at the beginning of the review process, and will be finalised at the end of September 2016**