

DN Charging Methodology Forum November 2015 (October MOD0186)

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Approach for Oct-15 MOD0186

- Full alignment to 14/15 RRP
- Alignment to RRP 8 year forecast submission, with following exceptions (which reflect more up to date positions)
 - UM positions in MODt term based on Ofgem determinations
 - NTS Exit Capacity Incentive and cost element based on finalised 15/16 bookings
 - Shrinkage cost element updated to reflect Ofgem determination allowance changes and continued movement in GPRC
 - Broad measure incentive profile revised reflective of 14/15 outcome



Approach for Oct-15 MOD0186

- Inflation based on Aug-15 HMT forecast, and available RPI indices to Sep-15
- Additionally MODt term adjusted to reflect:
 - Cost of debt % forecast per internal business plan
 - Expected reductions in corporation tax rates
 - Projection for reduced pension costs per 2015 AIP
- 15/16 collectable revenue reviewed for impact of Oct-15 gas year demand changes (creates forecast over recovery of £14m)
- MOD0186 also includes revised SOQ reduction assumptions based on indicative post AQ review positions provided by Xoserve (impact to unit prices)



Headline changes to collectable revenue

NETWORK		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND		621.2	609.6	621.8	608.0	635.0	660.3	673.0
LONDON		419.8	416.9	442.8	439.8	435.9	464.5	472.3
NORTH WEST		453.2	434.8	452.3	457.6	452.0	474.2	490.0
WEST MIDLANDS		329.1	332.3	325.5	325.7	342.4	356.6	368.1
COLLECTABLE REVENUE (JULY-15)		1,823.3	1,793.6	1,842.4	1,831.1	1,865.3	1,955.5	2,003.4
EAST OF ENGLAND		621.2	609.6	622.3	599.9	624.3	656.8	665.5
LONDON		419.8	416.9	448.2	434.4	423.5	456.2	457.4
NORTH WEST		453.2	434.8	460.8	455.3	437.0	469.8	482.3
WEST MIDLANDS		329.1	332.3	325.0	322.7	329.7	351.9	360.0
COLLECTABLE REVENUE (OCT-15)		1,823.3	1,793.6	1,856.3	1,812.2	1,814.6	1,934.7	1,965.2
EAST OF ENGLAND	▼	-	-	0.5	(8.2)	(10.6)	(3.4)	(7.5)
LONDON	▼	-	-	5.4	(5.4)	(12.4)	(8.3)	(14.9)
NORTH WEST	▼	-	-	8.6	(2.4)	(15.0)	(4.4)	(7.7)
WEST MIDLANDS	▼	-	-	(0.5)	(3.0)	(12.7)	(4.7)	(8.0)
CHANGE (£M)	▼	-	-	13.9	(19.0)	(50.7)	(20.8)	(38.2)
EAST OF ENGLAND	▼	-	-	0.1%	(1.3%)	(1.7%)	(0.5%)	(1.1%)
LONDON	▼	-	-	1.2%	(1.2%)	(2.8%)	(1.8%)	(3.2%)
NORTH WEST	▼	-	-	1.9%	(0.5%)	(3.3%)	(0.9%)	(1.6%)
WEST MIDLANDS	▼	-	-	(0.2%)	(0.9%)	(3.7%)	(1.3%)	(2.2%)
CHANGE (%)	▼	-	-	0.8%	(1.0%)	(2.7%)	(1.1%)	(1.9%)



High level change drivers

	NGGD TOTAL						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
COLLECTABLE REVENUE (JULY-15)	1,823.3	1,793.6	1,842.4	1,831.1	1,865.3	1,955.5	2,003.4
FINANCING (INFLATION, COST OF DEBT TAX & PENSIONS) ▼	-	-	-	(9.5)	(27.0)	(31.8)	(38.9)
NET SHRINKAGE RELATED ▼	-	-	-	(14.1)	(13.1)	(1.4)	(1.6)
NET NTS EXIT RELATED ▲	-	-	-	(0.0)	3.7	(0.2)	(0.7)
TOTEX INCENTIVE MECHANISM ▲	-	-	-	3.1	2.6	11.1	9.2
UNCERTAINTY MECHANISM ▼	-	-	-	5.0	(0.9)	0.8	(6.4)
BROAD MEASURE OF CUSTOMER SATISFACTION ▼	-	-	-	(2.4)	(1.0)	(0.5)	-
OVER / UNDER RECOVERY ▼	-	-	13.9	(1.1)	(14.5)	1.1	-
OTHER ▲	-	-	(0.0)	0.1	(0.6)	0.2	0.3
COLLECTABLE REVENUE (OCT-15)	1,823.3	1,793.6	1,856.3	1,812.2	1,814.6	1,934.7	1,965.2
CHANGE (£M) ▼	-	-	13.9	(19.0)	(50.7)	(20.8)	(38.2)
CHANGE (%) ▼	-	-	0.8%	(1.0%)	(2.7%)	(1.1%)	(1.9%)

- Majority of movement vs July MOD0186 comes from “Financing” which includes Inflation, Cost of Debt, Tax & Pensions representing £107m (94%) of overall net change, and 1.1% reduction in collectable revenue for 15/16 to 19/20
- Network level drill down of each component shown in following slides



Financing

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND	<i>BASED ON AUG-15 HMT FORECASTS FOR UK ECONOMY & AVAILABLE RPI INDICES TO SEP-15</i>	▼	-	-	-	(1.7)	(2.9)	(1.6)	0.5
LONDON		▼	-	-	-	(1.2)	(2.1)	(1.2)	0.4
NORTH WEST		▼	-	-	-	(1.2)	(2.1)	(1.2)	0.4
WEST MIDLANDS		▼	-	-	-	(0.9)	(1.6)	(0.9)	0.3
INFLATION		▼	-	-	-	(5.0)	(8.7)	(4.9)	1.5
EAST OF ENGLAND	<i>BASED ON INTERNAL FORECAST:</i>	▼	-	-	-	0.2	(1.8)	(4.6)	(8.9)
LONDON		▼	-	-	-	0.2	(1.3)	(3.3)	(6.6)
NORTH WEST		▼	-	-	-	0.2	(1.2)	(3.2)	(6.3)
WEST MIDLANDS		▼	-	-	-	0.1	(0.9)	(2.4)	(4.8)
COST OF DEBT		▼	-	-	-	0.6	(5.3)	(13.6)	(26.6)
EAST OF ENGLAND	<i>BASED ON EXPECTED REDUCTION TO 20% IN 16/17 AND TO 19% FROM 17/18 TO 19/20</i>	▼	-	-	-	(0.5)	(3.1)	(3.2)	(3.2)
LONDON		▼	-	-	-	(0.6)	(2.7)	(2.7)	(2.6)
NORTH WEST		▼	-	-	-	(0.2)	(1.9)	(2.0)	(2.3)
WEST MIDLANDS		▼	-	-	-	(0.4)	(1.8)	(1.9)	(2.0)
CORPORATION TAX		▼	-	-	-	(1.7)	(9.6)	(9.7)	(10.2)
EAST OF ENGLAND	<i>FORWARD EXTRAPOLATION OF PENSION COST REDUCTIONS PER 2015 AIP DRY RUNS</i>	▼	-	-	-	(1.2)	(1.1)	(1.2)	(1.2)
LONDON		▼	-	-	-	(0.8)	(0.8)	(0.8)	(0.9)
NORTH WEST		▼	-	-	-	(0.9)	(0.9)	(0.9)	(1.0)
WEST MIDLANDS		▼	-	-	-	(0.6)	(0.6)	(0.7)	(0.7)
PENSION COSTS		▼	-	-	-	(3.5)	(3.5)	(3.6)	(3.7)
EAST OF ENGLAND	<i>COMBINED IMPACT OF ABOVE REPRESENTS 94% OF OVERALL CHANGE FROM JULY-15 FORECAST & 1.1% REDUCTION IN COLLECTABLE REVENUE FROM 15/16 TO 19/20</i>	▼	-	-	-	(3.1)	(9.0)	(10.6)	(12.9)
LONDON		▼	-	-	-	(2.4)	(6.9)	(8.0)	(9.7)
NORTH WEST		▼	-	-	-	(2.2)	(6.2)	(7.3)	(9.2)
WEST MIDLANDS		▼	-	-	-	(1.8)	(5.0)	(5.9)	(7.2)
NET FINANCING		▼	-	-	-	(9.5)	(27.0)	(31.8)	(38.9)
EAST OF ENGLAND		▼	-	-	-	(0.5%)	(1.4%)	(1.6%)	(1.9%)
LONDON		▼	-	-	-	(0.6%)	(1.6%)	(1.7%)	(2.0%)
NORTH WEST		▼	-	-	-	(0.5%)	(1.4%)	(1.5%)	(1.9%)
WEST MIDLANDS		▼	-	-	-	(0.5%)	(1.5%)	(1.7%)	(2.0%)
NET FINANCING % CHANGE		▼	-	-	-	(0.5%)	(1.4%)	(1.6%)	(1.9%)



Shrinkage

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND		▼	-	-	-	(0.0)	(0.1)	(0.1)	(0.1)
LONDON	ALIGNED TO 14/15 RRP & 8 YEAR	▼	-	-	-	0.0	(0.1)	(0.0)	(0.0)
NORTH WEST	FORECAST SUBMISSION	▼	-	-	-	(0.1)	(0.0)	(0.0)	(0.0)
WEST MIDLANDS		▼	-	-	-	(0.1)	(0.0)	0.0	0.0
INCENTIVE FORECAST		▼	-	-	-	(0.2)	(0.2)	(0.1)	(0.1)
EAST OF ENGLAND	NET IMPACT TO BASE REVENUE AND	▼	-	-	-	(5.5)	(3.0)	0.3	0.3
LONDON	COST PASS THROUGH FROM NGGD	▼	-	-	-	(2.7)	(1.2)	0.1	0.1
NORTH WEST	ALLOWANCE REDUCTION PROPOSAL	▼	-	-	-	(3.6)	(2.9)	0.3	0.4
WEST MIDLANDS	DETERMINED BY OFGEM IN SEP-15	▼	-	-	-	(2.1)	(2.1)	(0.0)	0.0
	(PREVIOUSLY SHOWN AS SENSITIVITY)	▼	-	-	-	(2.1)	(2.1)	(0.0)	0.0
SHRINKAGE ALLOWANCE CHANGE		▼	-	-	-	(14.0)	(9.2)	0.7	0.8
EAST OF ENGLAND		▼	-	-	-	-	(1.2)	(0.7)	(0.8)
LONDON	ONGOING REDUCTIONS TO GAS	▼	-	-	-	-	(0.7)	(0.4)	(0.4)
NORTH WEST	PRICE REFERENCE COST FORECAST	▼	-	-	-	-	(0.9)	(0.5)	(0.6)
WEST MIDLANDS		▼	-	-	-	-	(0.8)	(0.4)	(0.5)
GAS PRICE REFERENCE COST		▼	-	-	-	-	(3.6)	(2.0)	(2.3)
EAST OF ENGLAND	COMBINED IMPACT OF ABOVE	▼	-	-	-	(5.5)	(4.3)	(0.4)	(0.6)
LONDON	REPRESENTS 0.3% REDUCTION IN	▼	-	-	-	(2.7)	(1.9)	(0.3)	(0.3)
NORTH WEST	COLLECTABLE REVENUE FROM	▼	-	-	-	(3.7)	(3.8)	(0.2)	(0.2)
WEST MIDLANDS	15/16 TO 19/20	▼	-	-	-	(2.2)	(3.0)	(0.4)	(0.5)
NET SHRINKAGE		▼	-	-	-	(14.1)	(13.1)	(1.4)	(1.6)
EAST OF ENGLAND		▼	-	-	-	(0.9%)	(0.7%)	(0.1%)	(0.1%)
LONDON		▼	-	-	-	(0.6%)	(0.4%)	(0.1%)	(0.1%)
NORTH WEST		▼	-	-	-	(0.8%)	(0.8%)	(0.1%)	(0.0%)
WEST MIDLANDS		▼	-	-	-	(0.7%)	(0.9%)	(0.1%)	(0.1%)
NET SHRINKAGE % CHANGE		▼	-	-	-	(0.8%)	(0.7%)	(0.1%)	(0.1%)



NTS Exit Capacity

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND	<i>BASED ON 15/16 CAPACITY BOOKINGS AND FLAT VOLUME PROJECTION GOING FORWARDS (NB INCENTIVE VALUE BASED ON t-3 INDICATIVE NTS PRICES)</i>	▼	-	-	-	(0.0)	(0.3)	(0.2)	(0.3)
LONDON		▲	-	-	-	(0.0)	2.9	2.1	2.0
NORTH WEST		▲	-	-	-	(0.0)	2.7	2.3	2.2
WEST MIDLANDS		▲	-	-	-	(0.0)	0.1	0.1	0.0
INCENTIVE FORECAST		▲	-	-	-	(0.0)	5.4	4.2	4.0
EAST OF ENGLAND	<i>NET IMPACT TO BASE REVENUE AND COST PASS THROUGH FROM NGGD ALLOWANCE REDUCTION PROPOSAL DETERMINED BY OFGEM IN SEP-15 (PREVIOUSLY SHOWN AS SENSITIVITY)</i>	▲	-	-	-	0.0	0.2	0.4	0.4
LONDON		▼	-	-	-	0.0	(0.9)	(2.3)	(2.5)
NORTH WEST		▼	-	-	-	(0.0)	(1.0)	(2.4)	(2.6)
WEST MIDLANDS		▼	-	-	-	0.0	0.0	(0.0)	(0.0)
EXIT CAPACITY COST		▼	-	-	-	0.0	(1.7)	(4.4)	(4.7)
EAST OF ENGLAND	<i>COMBINED IMPACT OF ABOVE REPRESENTS 0.03% INCREASE IN COLLECTABLE REVENUE FROM 15/16 TO 19/20</i>	▲	-	-	-	(0.0)	(0.1)	0.2	0.1
LONDON		▲	-	-	-	(0.0)	2.0	(0.3)	(0.5)
NORTH WEST		▲	-	-	-	(0.0)	1.7	(0.2)	(0.4)
WEST MIDLANDS		▲	-	-	-	(0.0)	0.1	0.1	0.0
NET NTS EXIT CAPACITY		▲	-	-	-	(0.0)	3.7	(0.2)	(0.7)
EAST OF ENGLAND		▲	-	-	-	(0.0%)	(0.0%)	0.0%	0.0%
LONDON		▲	-	-	-	(0.0%)	0.5%	(0.1%)	(0.1%)
NORTH WEST		▲	-	-	-	(0.0%)	0.4%	(0.0%)	(0.1%)
WEST MIDLANDS		▲	-	-	-	(0.0%)	0.0%	0.0%	0.0%
NET NTS EXIT CAPACITY % CHANGE		▲	-	-	-	(0.0%)	0.2%	(0.0%)	(0.0%)



Totex Incentive Mechanism

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND		▲	-	-	-	0.8	(1.6)	3.2	3.7
LONDON	<i>ALIGNED TO 14/15 RRP & 8 YEAR</i>	▲	-	-	-	1.6	(1.7)	1.3	1.3
NORTH WEST	<i>FORECAST SUBMISSION</i>	▲	-	-	-	5.2	(1.2)	0.5	1.5
WEST MIDLANDS		▲	-	-	-	(0.4)	(0.3)	1.6	(0.3)
LOAD RELATED CAPEX (NOMINAL)		▲	-	-	-	7.2	(4.7)	6.5	6.2
EAST OF ENGLAND		▲	-	-	-	(0.2)	0.4	1.1	1.3
LONDON	<i>ALIGNED TO 14/15 RRP & 8 YEAR</i>	▲	-	-	-	(1.5)	(0.1)	0.4	0.7
NORTH WEST	<i>FORECAST SUBMISSION</i>	▲	-	-	-	(1.8)	0.3	0.8	1.0
WEST MIDLANDS		▲	-	-	-	(0.1)	0.1	0.1	0.1
CONTROLLABLE OPEX (NOMINAL)		▲	-	-	-	(3.7)	0.7	2.4	3.1
EAST OF ENGLAND		▲	-	-	-	(0.4)	0.9	0.6	(0.1)
LONDON	<i>ALIGNED TO 14/15 RRP & 8 YEAR</i>	▲	-	-	-	0.4	0.2	(0.3)	(1.0)
NORTH WEST	<i>FORECAST SUBMISSION</i>	▲	-	-	-	(0.8)	3.0	0.9	0.9
WEST MIDLANDS		▲	-	-	-	0.4	2.6	1.0	0.0
REPEX (NOMINAL)		▲	-	-	-	(0.3)	6.7	2.2	(0.2)
EAST OF ENGLAND	<i>COMBINED IMPACT OF ABOVE</i>	▲	-	-	-	0.1	(0.3)	4.8	4.9
LONDON	<i>REPRESENTS 0.3% INCREASE IN</i>	▲	-	-	-	0.5	(1.6)	1.5	1.0
NORTH WEST	<i>COLLECTABLE REVENUE FROM</i>	▲	-	-	-	2.6	2.2	2.1	3.4
WEST MIDLANDS	<i>15/16 TO 19/20</i>	▲	-	-	-	(0.2)	2.3	2.7	(0.1)
NET TOTEX (NOMINAL)		▲	-	-	-	3.1	2.6	11.1	9.2
EAST OF ENGLAND		▲	-	-	-	0.0%	(0.0%)	0.7%	0.7%
LONDON		▲	-	-	-	0.1%	(0.4%)	0.3%	0.2%
NORTH WEST		▲	-	-	-	0.6%	0.5%	0.5%	0.7%
WEST MIDLANDS		▲	-	-	-	(0.0%)	0.7%	0.8%	(0.0%)
NET TOTEX % CHANGE		▲	-	-	-	0.2%	0.1%	0.6%	0.5%



Uncertainty Mechanism

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND		▲	-	-	-	1.5	4.7	3.1	1.6
LONDON	ALIGNED TO OFGEM	▲	-	-	-	1.5	5.2	3.0	1.5
NORTH WEST	DETERMINATION	▲	-	-	-	(2.2)	1.3	2.1	(0.4)
WEST MIDLANDS		▼	-	-	-	(0.6)	(7.2)	(1.1)	(0.4)
CNI (NOMINAL)		▲	-	-	-	0.2	4.0	7.2	2.2
EAST OF ENGLAND		▼	-	-	-	(0.4)	(0.4)	(0.4)	(0.4)
LONDON	ALIGNED TO OFGEM	▲	-	-	-	3.8	0.1	(0.6)	(2.0)
NORTH WEST	DETERMINATION	▲	-	-	-	2.0	0.2	0.1	0.2
WEST MIDLANDS		▲	-	-	-	-	-	-	-
STREETWORKS (NOMINAL)		▲	-	-	-	5.3	(0.0)	(0.8)	(2.3)
EAST OF ENGLAND		▲	-	-	-	1.3	0.4	0.3	0.5
LONDON	ALIGNED TO OFGEM	▲	-	-	-	-	-	-	-
NORTH WEST	DETERMINATION	▲	-	-	-	5.6	0.9	1.0	1.0
WEST MIDLANDS		▲	-	-	-	4.9	0.9	1.0	1.0
REPEX (NOMINAL)		▲	-	-	-	11.7	2.3	2.3	2.5
EAST OF ENGLAND		▼	-	-	-	(0.9)	(0.6)	(0.6)	(0.6)
LONDON	CORRECTION TO PREVIOUS	▼	-	-	-	(4.7)	(3.2)	(3.8)	(4.9)
NORTH WEST	FORECAST IN RESPECT OF	▼	-	-	-	(4.3)	(2.1)	(2.1)	(2.1)
WEST MIDLANDS	DUPLICATED COST STREAM	▼	-	-	-	(2.4)	(1.3)	(1.3)	(1.3)
TIER 2 REPEX (NOMINAL)		▼	-	-	-	(12.3)	(7.2)	(7.9)	(8.9)
EAST OF ENGLAND		▲	-	-	-	1.4	4.2	2.5	1.0
LONDON	COMBINED IMPACT OF ABOVE	▼	-	-	-	0.6	2.1	(1.4)	(5.5)
NORTH WEST	REPRESENTS 0.0% INCREASE IN	▲	-	-	-	1.1	0.3	1.2	(1.3)
WEST MIDLANDS	COLLECTABLE REVENUE FROM	▼	-	-	-	1.9	(7.5)	(1.5)	(0.6)
	15/16 TO 19/20								
NET UNCERTAINTY (NOMINAL)		▼	-	-	-	5.0	(0.9)	0.8	(6.4)
EAST OF ENGLAND		▲	-	-	-	0.2%	0.7%	0.4%	0.2%
LONDON		▼	-	-	-	0.1%	0.5%	(0.3%)	(1.2%)
NORTH WEST		▲	-	-	-	0.2%	0.1%	0.2%	(0.3%)
WEST MIDLANDS		▼	-	-	-	0.6%	(2.2%)	(0.4%)	(0.2%)
NET UNCERTAINTY % CHANGE		▼	-	-	-	0.3%	(0.0%)	0.0%	(0.3%)



Under / Over Recovery

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND	<i>DRIVEN BY SOQ CHANGES INDICATED BY POST AQ NETWORK REPORTS</i>	▼	-	-	0.5	(0.5)	(0.5)	0.5	-
LONDON		▼	-	-	5.4	(0.3)	(5.6)	0.3	-
NORTH WEST		▼	-	-	8.6	(0.1)	(8.9)	0.1	-
WEST MIDLANDS		▲	-	-	(0.5)	(0.2)	0.6	0.2	-
NET MOVEMENT IN K		▼	-	-	13.9	(1.1)	(14.5)	1.1	-

- **SOQ movements indicated at point of MOD0186 publication driving a £14m (0.8%) forecast over recovery in 2015/16, repaid in 17/18 with 2 year lag**
- **Driven by aggregate SOQ levels being higher than anticipated pre AQ review**
- **These positions were updated for the purposes of Indicative Price setting as firmer demand information became available, and showed higher still levels of aggregate SOQ at Oct-15**

NETWORK	NOTES		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
EAST OF ENGLAND	<i>UPDATED OVER RECOVERY POSITIONS INCLUDED IN INDICATIVE PRICES</i>	▼	-	-	3.1	(0.4)	(3.2)	0.4	-
LONDON		▼	-	-	4.9	(0.3)	(5.1)	0.3	-
NORTH WEST		▼	-	-	10.4	(0.1)	(10.8)	0.1	-
WEST MIDLANDS		▲	-	-	0.6	(0.1)	(0.6)	0.1	-
NET MOVEMENT IN K		▼	-	-	19.0	(0.9)	(19.7)	0.9	-