

# DN Charging Methodology Forum

## SGN October 2015 Mod 186 Summary

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**SGN**

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# Key Revenue Changes

**MODt** CNI Inclusion in Table 1.0 previously shown in Table 8.  
Update of Totex phasing and 2014/15 Repex Tier 2a;  
Updated tax rate of 19% 2017/18 to 2019/20;  
Higher Cost of Debt forecast 2016/17 onwards.

**Kt** Oct 2015 SOQ position forecast to be higher than assumed, generating higher revenue for the period October 2015 to March 2016 being returned in 2017/18.

**RPIFt** August 2015 HM Treasury update.

**SHRAt** Lower Shrinkage cost forecast 2015/16 onwards.

-No change in forward SOQ assumptions



# HM Treasury Medium Term RPI Forecast

## Movement- May 2015 to August 2015

	2014	2015	2016	2017	2018	2019	2020	2021
	HM Treasury	HM Treasury	HM Treasury	HM Treasury	HM Treasury	HM Treasury	SGN	SGN
<b>May 2015</b>	2.4%	1.1%	2.4%	3.0%	3.2%	3.0%	3.0%	3.0%
	Actual	HM Treasury	HM Treasury	HM Treasury	HM Treasury	HM Treasury	SGN	SGN
<b>August 2015</b>	2.4%	1.0%	2.2%	3.1%	3.2%	3.4%	3.0%	3.0%
<b>Movement</b>	0.0%	<b>-0.1%</b>	<b>-0.2%</b>	<b>0.1%</b>	0.0%	<b>0.4%</b>	0.0%	0.0%

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Latest Actual/Projected-May 2015</b>	2.0%	1.4%	2.6%	3.1%	3.2%	3.0%
<b>Latest Actual/Projected-August 2015</b>	2.0%	1.3%	2.4%	3.1%	3.2%	3.3%
<b>Movement</b>	0.0%	<b>-0.1%</b>	<b>-0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.3%</b>

# Southern Key Revenue Movements-All Charges

Row ref.	SGN - Southern		Variance July-Oct 2015				
			2015-16	2016-17	2017-18	2018-19	2019-20
5	Price Control Financial Model Iteration Adjustment	MODt	-	11.7	1.2	1.4	(1.8)
6	RPI True Up	TRUt	-	-	(0.8)	-	-
7	Forecast RPI Factor	RPIFt	-	(0.0030)	(0.0022)	(0.0010)	0.0029
	<b>Base Revenue</b>	<b>BRt</b>	-	<b>12.7</b>	<b>(0.7)</b>	<b>1.3</b>	<b>(0.7)</b>
14	Exit Capacity Allowance Adjustment		-	0.0	0.1	0.2	0.2
16	Shrinkage Cost Adjustment	SHRAt	-	0.0	(0.6)	(0.9)	(1.0)
19	Broad Measure of Customer Satisfaction Revenue Adjustment	BMt	-	-	0.1	0.2	0.1
20	Environmental Emissions Incentive Revenue Adjustment	EElT	-	-	0.1	0.3	0.6
21	Discretionary Reward Scheme Revenue Adjustment	DRSt	-	0.5	-	-	-
22	Network Innovation Allowance Revenue Adjustment	NIAt	-	0.1	(0.0)	0.0	(0.0)
23	Correction Term revenue Adjustment (K added)	-Kt	-	-	(8.3)	-	-
24	<b>Maximum DN Allowed Revenue (including NTS Exit)</b>	<b>ARt</b>	-	<b>13.2</b>	<b>(9.3)</b>	<b>1.0</b>	<b>(0.8)</b>
26	<b>Under/Over-Recovery Carried Forward (including NTS Exit)</b>	<b>Rt - ARt</b>	<b>8.0</b>	-	-	-	-
27	<b>Arithmetical April Price Change Forecast All Charges</b>		<b>0.0%</b>	<b>0.1%</b>	<b>-3.2%</b>	<b>1.5%</b>	<b>-0.2%</b>
	<b>TABLE 5 : SOQ October impact assumption</b>		<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
44	Annual October SOQ Assumption		1.9%	0.0%	0.0%	0.0%	0.0%
	<b>TABLE 6 : Annual Iteration Process adjustment (2009/10 Prices)</b>		<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
45	Cost of Debt Adjustment (drives changes to WACC)	CDE	0.0%	0.01%	0.03%	0.04%	0.06%
46	Cost of debt adjustment - £ effect on revenue	CDE £ impact	-	0.3	1.9	2.5	2.8
47	Tax Trigger Event	TTE	-	(0.1)	(3.0)	(3.0)	(2.8)
48	Tax Liability - gearing/interest costs	TGIE	-	1.4	0.1	0.5	0.5
57	Totex Incentive Mechanism - Impact on revenue (2 year lag)		-	1.0	(4.1)	(3.7)	(3.3)
58	Enhanced Physical Site Security (CNI)	IAEEPS	-	10.4	6.3	5.1	1.0
63	Fuel Poor Network Extensions	IAEFP	-	(0.1)	0.1	0.1	0.1
65	Mains & Services (Repex T2)	RE	-	(1.3)	(0.1)	(0.1)	(0.1)
70	<b>Total Potential Impact of Revenue Adjustments shown in Table 6</b>		-	<b>11.7</b>	<b>1.2</b>	<b>1.4</b>	<b>(1.8)</b>

# Scotland Key Revenue Movements-All Charges

Row ref	SGN - Scotland		Variance July-Oct 2015				
			2015-16	2016-17	2017-18	2018-19	2019-20
5	Price Control Financial Model Iteration Adjustment	MODt	-	9.9	1.6	(1.9)	1.1
6	RPI True Up	TRUt	-	-	(0.3)	-	-
7	Forecast RPI Factor	RPIFt	0.000	-0.003	-0.002	-0.001	0.003
	<b>Base Revenue</b>	<b>BRt</b>	-	<b>11.4</b>	<b>1.1</b>	<b>(2.7)</b>	<b>2.2</b>
16	Shrinkage Cost Adjustment	SHRAt	-	0.0	(0.3)	(0.4)	(0.4)
19	Broad Measure of Customer Satisfaction Revenue Adjustment	BMt	-	-	0.1	0.1	0.1
20	Environmental Emissions Incentive Revenue Adjustment	EEIt	-	-	0.1	0.2	0.1
22	Network Innovation Allowance Revenue Adjustment	NIAt	-	0.1	0.0	(0.0)	0.0
23	Correction Term revenue Adjustment (K added)	Kt	-	-	(8.4)	-	-
24	<b>Maximum DN Allowed Revenue (including NTS Exit)</b>	<b>ARt</b>	-	<b>11.7</b>	<b>(7.4)</b>	<b>(2.7)</b>	<b>2.0</b>
26	<b>Under/Over-Recovery Carried Forward (including NTS Exit)</b>	<b>Rt - ARt</b>	<b>8.1</b>	-	-	-	-
27	<b>Arithmetical April Price Change Forecast All Charges</b>		<b>0.0%</b>	<b>-0.7%</b>	<b>-6.0%</b>	<b>1.6%</b>	<b>1.5%</b>
	<b>TABLE 5 : SOQ October impact assumption</b>		<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
44	Annual October SOQ Assumption		<b>5.6%</b>	0.0%	0.0%	0.0%	0.0%
	<b>TABLE 6 : Annual Iteration Process adjustment (2009/10 Prices)</b>		<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
45	Cost of Debt Adjustment (drives changes to WACC)	CDE	-	0.01%	0.03%	0.04%	0.06%
46	Cost of debt adjustment - £ effect on revenue	CDE £ impact	-	0.6	0.8	0.8	1.6
47	Tax Trigger Event	TTE	-	(0.1)	(1.4)	(1.5)	(1.4)
48	Tax Liability - gearing/interest costs	TGIE	-	-	-	0.3	0.5
57	Totex Incentive Mechanism - Impact on revenue (2 year lag)		-	0.1	(0.2)	(2.0)	(0.0)
58	Enhanced Physical Site Security (CNI)	IAEEPS	-	9.0	2.1	-	-
63	Fuel Poor Network Extensions	IAEFP	-	1.4	0.8	0.8	0.8
65	Mains & Services (Repex T2)	RE	-	(0.1)	(0.0)	-	-
68	Shrinkage Costs	ALSC	-	(1.0)	(0.3)	(0.3)	(0.4)
70	<b>Total Potential Impact of Revenue Adjustments shown in Table 6</b>		-	<b>9.9</b>	<b>1.6</b>	<b>(1.9)</b>	<b>1.1</b>