



# Quarterly Revenue Forecast (MOD0186) December 2017

For DCMF on 11<sup>th</sup> January 2018

**Cadent**  
Your Gas Network

# Summary

- We are noting downward movement in 2018/19 prices since indicative positions, mainly due to movements in AQs and SOQs
- HM Treasury initially increased inflation forecast for 2018 up to 3.5%, but then released an update revising back down to 3.4% (note that each 0.1% change inflation has a £1.8m impact to allowed revenue)
- Cost of debt for the 2017 Annual Iteration Process finalised higher than our previous forecast at 2.03%. This is due to cessation of Bank of England data that underpins the cost of debt % calculation. We have assumed retrospective correction in the 2018 AIP
- We have attempted to provide an estimate of the Co-Operative Supplier of Last Resort claim, but have not yet had clarity from Ofgem on the GDN splits of the £14m total. We have assumed 25% of the total across our networks (£3.5m).
- We have reflected a reduced level of Network Innovation Allowance activity in 2018/19, which had been previously trailed as an area of risk
- Beyond next year, biggest overall change to the forecast is assumed deferral of the Smart Metering Uncertainty Mechanism settlement to GD-2. Our cost forecast assumption in this regard remains aligned to our last RRP submission.
- We have reflected the impact of business rates being pegged to CPI from 2018, reflected updated positions on NTS exit capacity prices, and also reviewed our forecasts for Csat and Stakeholder Engagement

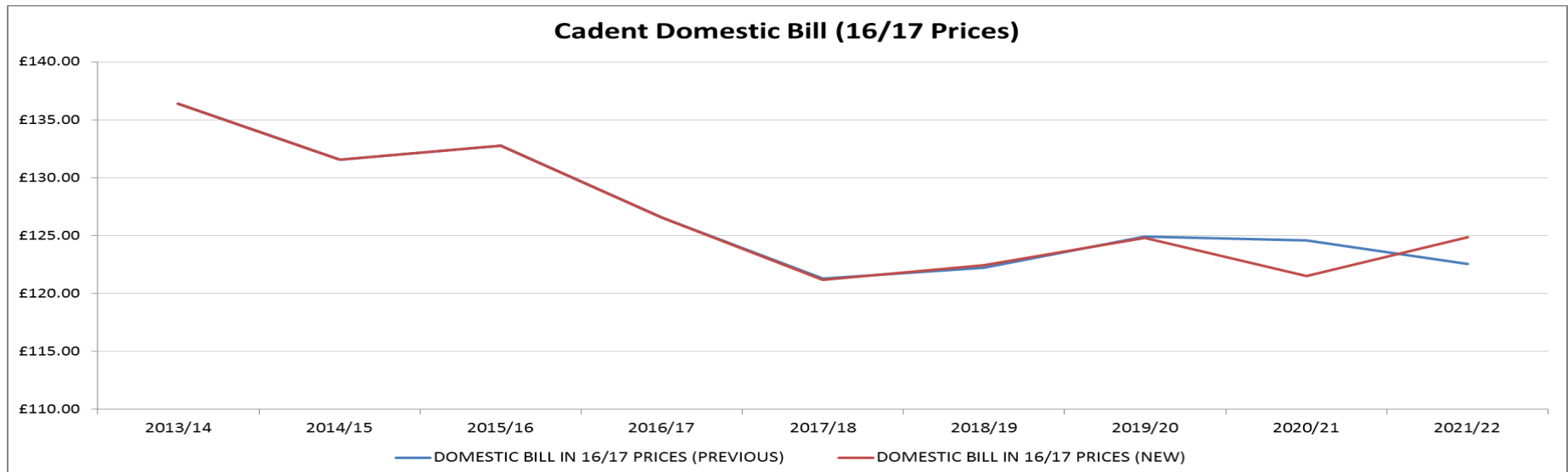
# Update to 2018/19 Prices from Indicative Position

NETWORK	EE	LO	NW	WM	CADENT
<b>AGGREGATE PRICE CHANGE PER OCT-17 INDICATIVES</b>	<b>+4.0%</b>	<b>+3.5%</b>	<b>+4.2%</b>	<b>+5.1%</b>	<b>+4.1%</b>
CRYSTALISATION OF RPIF TERM	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
COST OF DEBT AT 2.03%	+0.1%	+0.2%	+0.1%	+0.1%	+0.2%
ESTIMATED SUPPLIER OF LAST RESORT IMPACT	+0.2%	+0.2%	+0.2%	+0.2%	+0.2%
NIA FORECAST UPDATE	(0.1%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)
DEMAND UPDATES	(0.7%)	(0.7%)	(0.8%)	(1.1%)	(0.8%)
<b>UPDATED AGGREGATE PRICE CHANGE</b>	<b>+3.5%</b>	<b>+3.0%</b>	<b>+3.5%</b>	<b>+4.2%</b>	<b>+3.5%</b>

- Low level net Allowed Revenue impacts relating to previously trailed risks – only uncertainty that remains in this regard is Supplier of Last Resort (see later)
- Following Nexus implementation, we move to a ‘Rolling AQ’ approach with a snap shot taken in December to fix chargeable SOQs for the year ahead.
- SOQs have moved more than expected since indicative price publication. Much of this seems to relate to a UIG ‘data fix’ implemented by Xoserve ahead of the December snapshot. Will continue to monitor ahead of final charge setting in January.

# Headline movement from September MOD0186

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	
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.8	1,797.1	1,872.1	1,971.2	2,001.8	2,036.6	
MOVEMENT ▲	-	-	-	-	(0.9)	4.3	1.9	(45.3)	42.5	
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,796.2	1,876.3	1,973.1	1,956.6	2,079.0	
% MOVEMENT	-	-	-	-	(0.1%)	+0.2%	+0.1%	(2.3%)	+2.1%	
DOMESTIC BILL IN 16/17 PRICES (PREVIOUS)	£136.40	£131.54	£132.79	£126.55	£121.32	£122.21	£124.91	£124.60	£122.55	
MOVEMENT ▼	-	-	-	-	(£0.14)	+£0.22	(£0.08)	(£3.08)	+£2.32	
DOMESTIC BILL IN 16/17 PRICES (NEW)	£136.40	£131.54	£132.79	£126.55	£121.17	£122.43	£124.83	£121.52	£124.87	



# Summary Collectable Revenue trace

COLLECTABLE REVENUE TRACE	CADENT GAS LTD				
	2017/18	2018/19	2019/20	2020/21	2021/22
COLLECTABLE REVENUE (PREVIOUS)	1,797.1	1,872.1	1,971.2	2,001.8	2,036.6
INFLATION ▲	-	(0.1)	5.6	8.5	10.2
GAS PRICE REFERENCE COST ▲	-	-	1.5	0.5	0.9
COST OF DEBT ▼	-	2.8	(2.9)	-	-
PENSION DEFICIT FUNDING ▲	-	1.0	1.0	1.1	-
TOTEX FORECAST ADJUSTMENT ▼	-	(0.6)	(1.8)	(2.7)	-
SMART METERING SETTLEMENT DEFERRED ▼	-	-	-	(44.9)	46.3
BUSINESS RATES PEGGED TO CPI ▼	-	-	-	(1.8)	(10.5)
SUPPLIER OF LAST RESORT ESTIMATE ▲	-	3.5	-	-	-
UPDATED NTS INDICATIVE EXIT PRICES ▼	-	0.0	-	(4.4)	(4.4)
CSAT FORECAST UPDATE ▼	-	-	(3.2)	(0.6)	-
STAKEHOLDER ENGAGEMENT FORECAST ▲	-	-	1.2	(0.5)	(0.5)
NIA FORECAST UPDATE ▼	-	(3.1)	(0.5)	0.1	-
REVENUE COLLECTION FORECAST ▲	(0.5)	0.3	0.5	(0.3)	
OTHER UPDATES ▲	(0.5)	0.3	0.6	(0.2)	0.4
COLLECTABLE REVENUE (NEW)	1,796.2	1,876.3	1,973.1	1,956.6	2,079.0
% MOVEMENT	(0.1%)	+0.2%	+0.1%	(2.3%)	+2.1%

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Cost of debt movement reflects 2017 AIP figure of 2.03%, higher than our internal forecast of 1.99% due to cessation of underpinning BoE data...we have assumed cumulative correction in 2018 AIP
- Totex forecast adjustment relates to a correction to the impact of the London Medium Pressure allowance reduction
- NTS have reduced their indicative prices for Oct-18.

# Collectable Revenue Trace: Inflation

INFLATION	2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	(0.0)	1.9	2.8	3.3
LONDON (£M)	0.0	1.4	2.0	2.6
NORTH WEST (£M)	0.1	1.4	2.0	2.5
WEST MIDLANDS (£M)	(0.1)	1.0	1.6	1.9
<b>CADENT (£M)</b>	<b>(0.1)</b>	<b>5.6</b>	<b>8.5</b>	<b>10.2</b>
EAST OF ENGLAND (%)	(0.0%)	+0.3%	+0.4%	+0.5%
LONDON (%)	+0.0%	+0.3%	+0.4%	+0.5%
NORTH WEST (%)	+0.0%	+0.3%	+0.4%	+0.5%
WEST MIDLANDS (%)	(0.0%)	+0.3%	+0.4%	+0.5%
<b>CADENT (%)</b>	<b>(0.0%)</b>	<b>+0.3%</b>	<b>+0.4%</b>	<b>+0.5%</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Inflation rising up towards our medium term planning assumption on 3.5%

HMT RPI FORECASTS	2017	2018	2019	2020	2021
LATEST FORECAST (NOV-17)	3.6%	3.4%	3.1%	3.2%	3.1%
PREVIOUS (AUG-17)	3.5%	3.5%	3.0%	3.0%	3.0%
CHANGE	+0.1%	(0.1%)	+0.1%	+0.2%	+0.1%

RPI vs CPI	2017	2018	2019	2020	2021
RPI (NOV-17)	3.6%	3.4%	3.1%	3.2%	3.1%
CPI (NOV-17)	2.7%	2.6%	2.1%	2.1%	2.0%
DIFFERENCE	+0.9%	+0.8%	+1.0%	+1.1%	+1.1%

# Collectable Revenue Trace: Pension Deficit

PENSION DEFICIT FUNDING		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	0.6	0.6	0.6	-
LONDON (£M)	▲	0.1	0.1	0.1	-
NORTH WEST (£M)	▲	0.2	0.2	0.2	-
WEST MIDLANDS (£M)	▲	0.2	0.2	0.2	-
<b>CADENT (£M)</b>	<b>▲</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>	<b>-</b>
EAST OF ENGLAND (%)	▲	+0.1%	+0.1%	+0.1%	-
LONDON (%)	▲	+0.0%	+0.0%	+0.0%	-
NORTH WEST (%)	▲	+0.0%	+0.0%	+0.0%	-
WEST MIDLANDS (%)	▲	+0.1%	+0.1%	+0.1%	-
<b>CADENT (%)</b>	<b>▲</b>	<b>+0.1%</b>	<b>+0.1%</b>	<b>+0.1%</b>	<b>-</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Finalisation of the triennial pension review was slightly higher than provisional positions included in the Sep-17 report, mainly the result of higher admin costs
- The October Indicative prices, did reflect the updated position here, so this will not be a driver of any change to final prices

# Collectable Revenue Trace: Business Rates

BUSINESS RATES PEGGED TO CPI		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	-	-	(0.6)	(3.3)
LONDON (£M)	▼	-	-	(0.5)	(2.8)
NORTH WEST (£M)	▼	-	-	(0.4)	(2.5)
WEST MIDLANDS (£M)	▼	-	-	(0.3)	(1.9)
<b>CADENT (£M)</b>	<b>▼</b>	<b>-</b>	<b>-</b>	<b>(1.8)</b>	<b>(10.5)</b>
EAST OF ENGLAND (%)	▼	-	-	(0.1%)	(0.5%)
LONDON (%)	▼	-	-	(0.1%)	(0.5%)
NORTH WEST (%)	▼	-	-	(0.1%)	(0.5%)
WEST MIDLANDS (%)	▼	-	-	(0.1%)	(0.5%)
<b>CADENT (%)</b>	<b>▼</b>	<b>-</b>	<b>-</b>	<b>(0.1%)</b>	<b>(0.5%)</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- An interesting development in the Nov-17 Government budget was that Business Rates will be pegged to CPI from 2018
- This essentially creates a real price effect where the RIIO GD-2 revenue out turn is based on RPI
- The 2021/22 impact is magnified because this will include both the 2 year lagged true up from 2019/20, and a reduction to assumed GD-2 opening allowances



# Collectable Revenue Trace: Supplier of Last Resort

- When GB Energy ceased trading last year, Co-Operative was appointed ‘Supplier of Last Resort’
- SoLR arrangements permit Co-Op to apply for its costs incurred in fulfilling this role

SUPPLIER OF LAST RESORT ESTIMATE		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	1.3	-	(0.0)	-
LONDON (£M)	▲	0.7	-	0.1	-
NORTH WEST (£M)	▲	0.8	-	0.0	-
WEST MIDLANDS (£M)	▲	0.7	-	(0.0)	-
<b>CADENT (£M)</b>	<b>▲</b>	<b>3.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
EAST OF ENGLAND (%)	▲	+0.2%	-	(0.0%)	-
LONDON (%)	▲	+0.2%	-	+0.0%	-
NORTH WEST (%)	▲	+0.2%	-	+0.0%	-
WEST MIDLANDS (%)	▲	+0.2%	-	(0.0%)	-
<b>CADENT (%)</b>	<b>▲</b>	<b>+0.2%</b>	<b>-</b>	<b>-</b>	<b>-</b>

- It has only been recently that we have a sense of the magnitude of Co-Op’s claim. Ofgem report this to be around £14m for both Electricity and Gas networks
- Rough estimate of Cadent allocation is £3.5m. This is based on GDNs having 50% of the claim allocated, and then split by supply point counts to derive the amount attributable to Cadent networks.
- This is probably a worst case view, and we can expect further clarity ahead of final charge setting

# Collectable Revenue Trace: Customer Satisfaction

CSAT FORECAST UPDATE		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	-	-	-	-
LONDON (£M)	▼	-	(1.5)	(0.6)	-
NORTH WEST (£M)	▼	-	(0.5)	-	-
WEST MIDLANDS (£M)	▼	-	(1.2)	-	-
<b>CADENT (£M)</b>	<b>▼</b>	<b>-</b>	<b>(3.2)</b>	<b>(0.6)</b>	<b>-</b>
EAST OF ENGLAND (%)	▲	-	-	-	-
LONDON (%)	▼	-	(0.3%)	(0.1%)	-
NORTH WEST (%)	▼	-	(0.1%)	-	-
WEST MIDLANDS (%)	▼	-	(0.3%)	-	-
<b>CADENT (%)</b>	<b>▼</b>	<b>-</b>	<b>(0.2%)</b>	<b>(0.0%)</b>	<b>-</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Adjusted CSat position to reflect current view of 2017/18 forecast
- We had previously assumed that we would achieve maximum incentive across all categories
- We're making good progress on Csat performance, and the updated forecast reflects a view that we expect on target or above for all networks and categories, but not necessarily at maximum incentive levels in all cases

# Collectable Revenue Trace: Stakeholder Engagement

STAKEHOLDER ENGAGEMENT		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	-	0.4	(0.2)	(0.2)
LONDON (£M)	▲	-	0.3	(0.1)	(0.1)
NORTH WEST (£M)	▲	-	0.3	(0.1)	(0.1)
WEST MIDLANDS (£M)	▲	-	0.2	(0.1)	(0.1)
<b>CADENT (£M)</b>	<b>▲</b>	<b>-</b>	<b>1.2</b>	<b>(0.5)</b>	<b>(0.5)</b>
EAST OF ENGLAND (%)	▲	-	+0.1%	(0.0%)	(0.0%)
LONDON (%)	▲	-	+0.1%	(0.0%)	(0.0%)
NORTH WEST (%)	▲	-	+0.1%	(0.0%)	(0.0%)
WEST MIDLANDS (%)	▲	-	+0.1%	(0.0%)	(0.0%)
<b>CADENT (%)</b>	<b>▲</b>	<b>-</b>	<b>+0.1%</b>	<b>(0.0%)</b>	<b>(0.0%)</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Essentially just re-profiling from a revenue impact perspective
- Revised forecast assumes we'll achieve our average score to date of 6.7 (last year's score 6.9, with a GD-1 high at 7.15 in 13/14)

# Collectable Revenue Trace: Network Innovation

NIA FORECAST UPDATE		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	(0.9)	(0.2)	0.1	-
LONDON (£M)	▼	(0.8)	(0.1)	(0.1)	-
NORTH WEST (£M)	▼	(0.7)	(0.1)	(0.0)	-
WEST MIDLANDS (£M)	▼	(0.7)	(0.1)	0.1	-
<b>CADENT (£M)</b>	<b>▼</b>	<b>(3.1)</b>	<b>(0.5)</b>	<b>0.1</b>	<b>-</b>
EAST OF ENGLAND (%)	▼	(0.1%)	(0.0%)	+0.0%	-
LONDON (%)	▼	(0.2%)	(0.0%)	(0.0%)	-
NORTH WEST (%)	▼	(0.2%)	(0.0%)	(0.0%)	-
WEST MIDLANDS (%)	▼	(0.2%)	(0.0%)	+0.0%	-
<b>CADENT (%)</b>	<b>▼</b>	<b>(0.2%)</b>	<b>(0.0%)</b>	<b>+0.0%</b>	<b>-</b>

- Note: movements are relative to the Sep-17 MOD0186 report, and expressed in nominal terms
- Previously trailed this as an area of risk
- Given that NIA has an in-year impact to Allowed Revenue (and therefore consequential to 2018/19 prices) we have provided best view as of Dec-17

# GD-2 Forecast (Base Revenue)

2009/10 PRICES	EE	LO	NW	WM	CADENT
<b>2020/21 BASE REVENUE</b>	<b>496.2</b>	<b>347.2</b>	<b>360.6</b>	<b>270.0</b>	<b>1,474.0</b>
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(2.4)	16.4	9.9	6.1	30.0
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(5.7)	(2.8)	(3.0)	(0.3)	(11.9)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(2.9)	(1.6)	(2.0)	(1.7)	(8.1)
TAX AT 17%	(6.1)	(4.3)	(4.5)	(3.5)	(18.4)
COST OF DEBT AT 0.99%	(31.1)	(23.3)	(22.0)	(16.8)	(93.2)
SMART UM DEFERRAL	11.2	7.5	8.0	5.4	32.1
<b>2020/21 ADJUSTED BASE REVENUE</b>	<b>459.1</b>	<b>338.9</b>	<b>346.9</b>	<b>259.1</b>	<b>1,404.0</b>
NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
<b>2020/21 BASE REVENUE</b>	<b>716.6</b>	<b>501.4</b>	<b>520.8</b>	<b>389.9</b>	<b>2,128.7</b>
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(3.5)	23.7	14.3	8.8	43.3
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	(0.2)	(0.1)	(0.2)	(0.1)	(0.6)
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(8.3)	(4.1)	(4.3)	(0.4)	(17.1)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(4.1)	(2.3)	(2.8)	(2.5)	(11.7)
TAX AT 17%	(8.7)	(6.2)	(6.5)	(5.1)	(26.6)
COST OF DEBT AT 0.99%	(44.9)	(33.7)	(31.7)	(24.3)	(134.6)
SMART UM DEFERRAL	16.2	10.9	11.5	7.8	46.3
<b>2020/21 ADJUSTED BASE REVENUE</b>	<b>663.0</b>	<b>489.5</b>	<b>501.0</b>	<b>374.2</b>	<b>2,027.7</b>

- Maintaining a position that updates 2020/21 base revenue for reasonably predictable movements

# GD-2 Forecast (Allowed Revenue)

NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
<b>2020/21 ADJUSTED BASE REVENUE</b>	<b>663.0</b>	<b>489.5</b>	<b>501.0</b>	<b>374.2</b>	<b>2,027.7</b>
PASS THROUGH	(13.1)	20.0	8.9	4.8	20.6
EXIT CAPACITY (INCENTIVE)	7.9	3.7	5.3	2.0	18.9
EXIT CAPACITY (COST PASS THROUGH)	(8.2)	(3.9)	(4.0)	(0.0)	(16.1)
SHRINKAGE INCENTIVE	0.6	0.4	0.4	0.3	1.8
SHRINKAGE COST PASS THROUGH	(4.4)	(2.5)	(3.1)	(2.7)	(12.8)
BROAD MEASURE OF CUSTOMER SATISFACTION	5.0	3.5	3.6	2.7	14.9
ENVIRONMENTAL EMISSIONS INCENTIVE	4.0	2.4	2.7	2.2	11.3
DISCRETIONARY REWARD SCHEME	-	-	-	-	-
NETWORK INNOVATION ALLOWANCE	4.2	3.1	3.2	2.4	12.8
UNDER / OVER COLLECTION B/F	-	-	-	-	-
<b>2021/22 MAXIMUM ALLOWED REVENUE</b>	<b>659.0</b>	<b>516.2</b>	<b>518.1</b>	<b>385.8</b>	<b>2,079.0</b>

- Allowed revenue forecasts after opening base revenue will reflect 2 year lagged impacts from 2019/20

# Risks and Sensitivities

- Crystallized the previously trailed risk on NIA into the 2018/19 forecast, may be continued risk for remained of GD-1
- Settlement of the Smart Metering Uncertainty Mechanism assumed to be deferred to GD-2. Seeing a risk of cost reduction against our last RRP submission. We'll update this after our next RRP submission in July 2018
- We are likely to go back on the Streetworks Uncertainty Mechanism for East of England only, but don't have a quantification as at Dec-17. We will provide an update as soon as this is available.
- We have taken pragmatic view on Supplier of Last Resort issue towards a worst case scenario
- We are seeing a developing position from the current NTS charging methodology review that indicates potentially significant increases to GDN exit capacity prices. This will be driven by the adoption of the Capacity Weighted Distance model and the move away from commodity based revenue to capacity. Whilst we have visibility of some early quantification, there are still a number of influencing factors that could affect the outcome, for example the profile of NTS allowed revenue, developments to the short haul tariff, and evolution of direct connect booking behaviour. We continue to work closely with NTS to understand and sign post the impact to GDN charges.