

December 2017

MOD 186

Accompanying Narrative



Movement Since September 2017

		2017/18	2018/19	2019/20	2020/21	2021/22	Explanation
Reported at the last DCMF		403.23	427.97	472.09	456.77	436.90	
RPI	↓		0.53	0.79	0.40	0.44	Reflects the November 2017 (Republished) forecast from HM Treasury
Interest Rate	↓		-0.00	0.00	0.00	0.00	Reflects the move from 0.25 to 0.5% by the Bank of England. We are forecasting a gradual increase to 1% by 2020
NTS Volume	↓		0.00	-0.42	0.00	-0.00	Reflects the Gemini bookings effective October 2017 with no further changes assumed.
NTS Price	↑		0.00	0.00	-2.08	-2.22	Reflects NTS reforecast published November
AIP direction	↑		0.75	2.69	0.23	1.26	Increase due to NTS Exit variance for AEx in 2019/10 and slight movement in Cost of Debt as a result of Ofgem using 2.03%
Pension	↓		0.00	-0.10	-0.29	-0.29	Reflects the revised pension allowances directed
Collected Revenue	↓		0.00	-0.46	0.00	0.00	Accounts for the forecasted recovery against Transportation and Exit Capacity allowances for 2017/18
Gas Prices	↑		0.00	0.79	1.23	0.40	NBP is now up to c60p/th meaning an increase in cost true up in T+2 for each year on previous forecasts.
Last resort supplier claim			0.88				WWU expects Ofgem to direct networks to increase allowances from 1 st April 2018 to recover those costs relating to the Supplier of Last Resort Claim made by the Co-Op
Reported in the latest MOD186	↑	403.23	430.11	475.36	456.17	436.48	
Net Movement	%	0.0%	0.5%	0.7%	-0.1%	-0.1%	

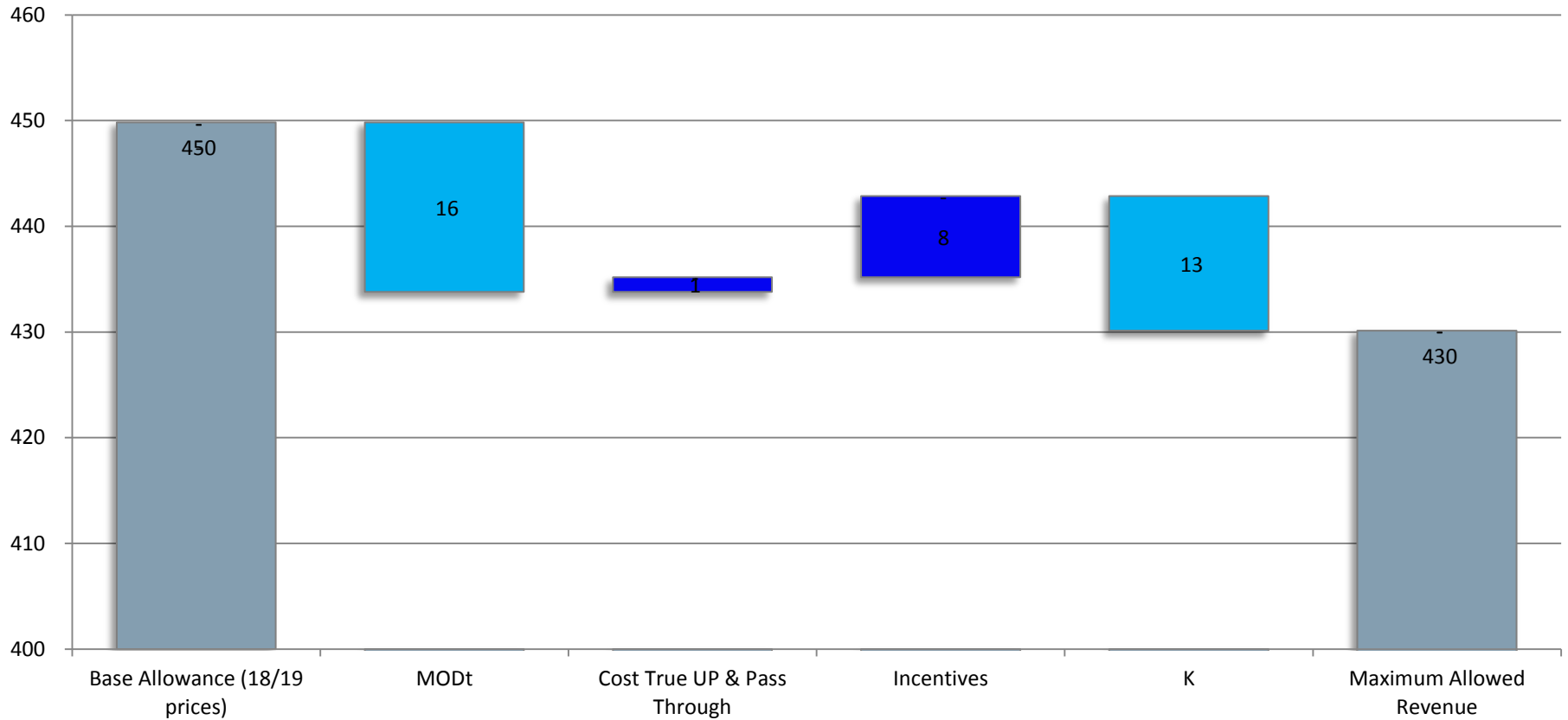
2021/22

GDNs are required to forecast the current years Maximum Allowed Revenue and forecasts for the following four years. This therefore requires forecasts into the next price control. The price control settlement remains at an early stage of development therefore the forecast provided is done with respect of a number of key assumptions which may result in a materially different allowance.

Basic assumptions made in arriving at 2021/22

1. NIA allowance forecast to continue in its current form
2. No change in regulatory treatment for depreciation, cost of debt or equity
3. Inflation uplifts to remain linked to RPI
4. Cost true ups and Incentives relating to RIIO GD1 will be payable/receivable in T+2, therefore 2021/22 reflects the performance from 2019/20
5. Base Revenue (PUt) set in line with method communicated in June 2017 DCMF

2018/19 Allowed Revenue update



Exit Capacity

- WWU charges remain volatile following the cost shock imposed by the NTS from October 2016.
- The impact of MOD0621 remains unclear and therefore forecasts remain based on the current NTS published forecasts. These may not be reflective of actual costs incurred in the future.
- Under the current licence networks can only request amendments to the term AEx using published NTS forecasts at T-3 and FP bookings. Therefore 2019/20 was required to be made in July 2017 where no such indicatives under the new charging model were provided. It is unclear what provisions Ofgem may make where NTS prices change significantly, should this occur.
- An indication of current charge forecasts is included below assuming AEx and our costs remain unchanged from NTS current forecasts, this should not be taken as any formal indication of future prices and is provided for information only:

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
SW1	0.0083	0.0062	0.0091	0.0119	0.0207	0.0271	0.0181
SW2	0.0248	0.0193	0.0171	0.0177	0.0329	0.0407	0.0272
SW3	0.0284	0.0219	0.0281	0.0256	0.0494	0.0590	0.0397
WA1	0.0298	0.0231	0.0253	0.0172	0.0320	0.0400	0.0267
WA2	0.0018	0.0013	0.0027	0.0068	0.0101	0.0152	0.0100

Enhanced Site Security - IAEEPS

- WWU plans to submit an application under the licence term IAEEPS
- Submission is due within the window 1/5/2018 – 31/5/2018
- Ofgem will assess and make a direction by 30/11/2018
- This will impact the charging year starting 1/4/2019, our forecast from RRP submitted July 2017 was:

	£'m (2009/10)	£'m (nominal)
2019/20	6.1	8.2
2020/21	0.8	1.1
2021/22	0.8	1.1

- This assumes that the costs from July 2017 remain reflective of those WWU will request
- That Ofgem considers all WWU spend to be efficient

Specific risk and uncertainties to note

- NTS EU Tariff Code (MOD0621) and its resulting impact on the costs levied on ourselves
- Treatment of Cost of Debt index. WWU have assumed Ofgem will make a retrospective amendment as part of the November 2018 AIP to the PCFM
- Theft of Gas Pass through. This depends on the level of successful collections made and is not forecast
- Final request under the supplier of last resort being received
- IAEEPS claim being made and directed

Important Notice

This information is submitted in fulfilment of the UNC in that forecast allowed revenue must be shared. No representation as to the accuracy of forecast information or any other information is made in this report. These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This document should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment. It should be noted that auditors have not reviewed the information in this document.

Furthermore certain information presented is done so to maintain consistency between networks, most notably RPI forecasts which reflect the latest published view by HM Treasury and consequently can be different from the expected outturn internally which may use other information to inform forecasting.

Thank you

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